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## Peer review manual : instructions and checklists, revised edition 1986

American Institute of Certified Public Accountants. Private Companies Practice Section

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Revised  
Edition  
1986

**AICPA**

Division for  
CPA Firms  
Private Companies  
Practice Section

# PEER REVIEW MANUAL

American Institute of Certified Public Accountants



Revised  
Edition  
1986

**AICPA**

Division for  
CPA Firms  
Private Companies  
Practice Section

# PEER REVIEW MANUAL

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Instructions and Checklists

American Institute of Certified Public Accountants



**AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION**

Peer Review Manual  
Instructions and Checklists

The instructions, checklists and programs contained in this manual have been developed to assist reviewers in performing peer reviews of member firms of the Private Companies Practice Section of the AICPA Division for CPA Firms. The checklists and programs are intended to be guides and in application may require modification and tailoring for each firm reviewed.

Peer Review Committee (January 1986)

David E. Peeler, Chairman  
John M. Andres  
David O. Blumhagen  
Larry L. Creek  
Jerry W. Crisp  
William Haller  
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Technical Manager  
Quality Control Review



**AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS**

**DIVISION FOR CPA FIRMS**

**PRIVATE COMPANIES PRACTICE SECTION**

**PEER REVIEW MANUAL**

**INSTRUCTIONS AND CHECKLISTS**

**Revised 1986**



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American Institute of Certified Public Accountants, Inc.  
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**AICPA DIVISION FOR CPA FIRMS**  
**PRIVATE COMPANIES PRACTICE SECTION**

**Peer Review Manual**

**Instructions and Checklists**

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- Report Review Program
- Guidance for Performing an Inspection
- Writing Letters of Comments and Letters of Response
- Other Matters



AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION

Review Team Captain Checklists

This section of the PCPS Review Manual contains two checklists, one of which must be used on every peer review:

(A) Review team captain checklist.

(This checklist must be used on all peer reviews conducted by committee-appointed review teams and may be used on other types of reviews.)

(B) Review team captain checklist for firm-on-firm, association-sponsored, and state society-sponsored peer reviews.

(This checklist must be used on all reviews of these types unless the reviewer has chosen to use the review team captain checklist in "A" above and submits a copy.)

Each checklist contains as Appendix A a questionnaire that, when properly completed, should provide the documentation necessary to comply with the Section's requirements for summary review memorandums. A copy of the firm-wide summary review memorandum and of an appropriate review team captain checklist must be submitted to the staff of the Quality Review Division for all reviews, whether conducted by committee-appointed review teams, firms, or teams appointed by authorized associations or state societies.



AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION

Review Team Captain Checklist

This checklist should be used on peer reviews conducted by committee-appointed review teams in conjunction with the General Instructions to Reviewers and other guidance material issued to implement the peer review program of the Private Companies Practice Section of the AICPA Division for CPA Firms. References are to Standards for Performing and Reporting on Peer Reviews. (Section 2 in the PCPS Peer Review Manual, 1986 edition.)

This checklist may also be used when conducting firm-on-firm or association-sponsored or state society-sponsored peer reviews. If this checklist is not used on such reviews, the review captain must prepare the abbreviated checklist included elsewhere in this section of the Manual.

Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the AICPA Quality Review Division at (212) 575-6650.

**I. Prior to the Review**

1. Review background information furnished by the firm for completeness and obtain additional information, if needed (Standards, pp. 2-14 and 2-15).
2. Approve engagement letter drafted by AICPA staff (call staff at AICPA).
3. Discuss with AICPA staff the composition of the review team. Consider the need for individuals with expertise in specialized areas (Standards, pp. 2-9 and 2-10) and the requirement that reviewers be independent of the reviewed firm (Standards, pp. 2-7 to 2-9 and Appendix A). Review and approve the composition of the review team.
4. Discuss with AICPA staff the estimated date of the firm-wide exit conference.<sup>1</sup>

Initial	Date

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<sup>1</sup>The review team ordinarily should not hold the exit conference until the results of the peer review have been summarized and the report and letter of comments, if any, have been drafted, or a detailed outline has been prepared of the matters to be included in these documents. If there is uncertainty about the type of report to be issued, the review team should postpone the exit conference until a decision is reached (Standards, p. 2-22).

5. Call (or visit) the firm sufficiently in advance (ordinarily three weeks) of the review in order to make necessary arrangements. During the call (or visit):
  - a. Make certain that the firm has completed the Quality Control Policies and Procedures Questionnaire portion of the Peer Review Program Guidelines (Section 1).
  - b. Obtain and evaluate documentation summarizing the inspection program implemented by the firm (Standards, pp. 2-16 and 2-17).
  - c. If the firm uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, or questionnaires) that have been purchased from another accounting firm or some other third party and that have been reviewed by an independent third party, obtain a copy of the most recent report, letter of comments, and response thereto issued in conjunction with the review of those materials (Peer Review Program Guidelines, p. 2-9).
  - d. Request firm to designate a partner or senior staff member as liaison to provide administrative assistance to the review team.
  - e. Discuss the travel and hotel arrangements for the review, engagement letter, period to be reviewed, (Standards, pp. 2-12 and 2-13), timing of exit conference, etc.
  - f. Ascertain which persons in the firm are responsible for the various quality control functions and arrange an interview schedule for the review team with such persons.
  - g. For multi-office firms, determine which procedures must be reviewed at practice offices and select certain offices for visit (Standards, pp. 2-13, 2-14, 2-17 and 2-18). Inform the reviewed firm of offices selected for visit as close to the scheduled review dates as practicable. However, the visits are not expected to be on a surprise basis.

Initial	Date

- h. Select a review period which covers a current period of one year. This review period should be mutually agreed upon by the reviewed firm and the review team captain (Standards, p. 2-12 and Appendix B). The review should ordinarily be conducted within three or four months following the end of the year to be reviewed. The review period does not have to coincide with the reviewed firm's fiscal year-end.
- i. Make a preliminary selection of engagements for review (Standards, pp. 2-18 to 2-20 and Appendix C). If the firm conducts one or more audits subject to the Government Auditing Standards, at least one such engagement should be selected; engagements subject to the Single Audit Act of 1984, especially those covering major programs, should be given priority when making that selection (Update 8-C). Engagements selected for review should be those with years ending during the period under review unless a more recent report has been issued at the time of selection (Standards, p. 2-19).
- For those engagements selected, request the firm to complete the profile sheets of the engagement review checklists.<sup>2</sup> In order to maintain client confidentiality, code numbers should be assigned to engagements selected.
  - If the firm states that certain engagements that you have selected are not to be reviewed, determine the reasonableness of the explanation. Consider what other actions may be appropriate in the circumstances and whether the engagements excluded from review place a limitation on the scope of the review (Standards, p. 2-13).
- j. Contact all review team members (if any) to discuss arrangements with them.

Initial	Date

<sup>2</sup>To minimize any inference that advance selections may afford undue opportunities for last minute "clean-up" of the files, it is preferable that the selection of some engagements not be made known to the firm (or office) until the review team arrives.



## II. At Beginning of Review (Before Starting)

1. Arrive at the firm's office prior to the other review team members in order to perform preliminary planning, as necessary.
2. Meet with reviewers to orient them to firm policies and procedures. Each team member should read the sections of the firm's quality control policies and procedures questionnaire and the quality control document (if any) relative to their part of the review.
3. Introduce reviewers to appropriate firm personnel and tour the office. (A general meeting of reviewers and firm personnel may be desirable.)
4. Instruct the reviewers as to the manner in which working papers, questionnaires, checklists, and other notes relating to the review are to be prepared during the course of the review to facilitate summarization (Standards, pp. 2-22 and 2-23). Explain the method of documenting the matters that, in the reviewer's opinion, could be significant deficiencies in the design of the firm's quality control policies and procedures or significant lack of compliance therewith and that might affect the review team's report or be included in the letter of comments. (The form provided for documentation of such items is captioned "Matter for Further Consideration.")
5. Make final selection of engagements for review and request working papers and other client files.
6. Explain "key-area" concept of engagement reviews to reviewers. (See "Emphasis on Key Audit Areas" in the "General Instructions to Reviewers.")
7. Assign responsibilities for review of the functional quality control areas, engagements, and membership requirements. (Engagement reviewers must be independent with respect to the engagements and not have a conflict of interest - Standards, pp. 2-8 and 2-9). Time must be scheduled to permit proper supervision and review of the work of the reviewers.

Initial	Date

8. If the firm was previously reviewed (Standards, p. 2-13):

- a. Document the review team's evaluation of the actions taken by the firm in response to the prior report and letter of comments.
- b. Consider whether matters, if any, discussed in the firm's prior report, letter of comments, and response thereto require additional emphasis in the current review.

III. During the Review

- 1. Gain an understanding of the firm's professional and management environment and the business environment in which the firm and its clients practice.
- 2. Prepare or supervise the preparation of modifications to programs and tests of compliance with the firm's quality control system after studying and evaluating the system and the firm's inspection program. Approve the nature and extent of tests to be performed.
- 3. Ascertain that the scope of the peer review includes an adequate sample of audit and accounting engagements and consider whether there is a need for further modifications in program or approach.
- 4. For multi-office firms, determine that arrangements are made for an exit conference at each office visited by reviewers (to the extent deemed necessary).
- 5. Consult with AICPA staff whenever any of the following situations develop:
  - a. When difficulties are encountered or circumstances appear to dictate departure from the guidelines - e.g., such as in selection of engagements for review.
  - b. When difficulties are encountered in selecting a reasonable cross section of the firm's accounting and auditing practice based on the engagement selection criteria set forth in the peer review standards.

Initial	Date

	Initial	Date
c. When the review team feels it does not have the required expertise to satisfactorily accomplish the required engagement reviews.		
d. When consideration is being given to suspending or terminating the review.		
e. When the review team encounters a situation where it and the reviewed firm disagree about whether there is a need to take action to prevent future reliance on a previously issued report, pursuant to the AICPA's <u>Professional Standards</u> , vol. 1, AU section 561.		
f. When the review team encounters a situation where it and the reviewed firm disagree about whether there is a need for additional auditing procedures to provide a satisfactory basis for a previously expressed opinion, pursuant to the AICPA's <u>Professional Standards</u> , vol. 1, AU section 390.		
g. When the review team encounters a situation where it and the reviewed firm disagree about whether the firm had a reasonable basis under the standards for accounting and review services for the report issued.		
h. When issuance of a modified report is being considered.		
i. When no letter of comments will be issued.		
j. When the firm has had a significant acquisition or divestiture during, or subsequent to, the peer review period.		
6. Prepare a summary of "no" answers on engagements for each office reviewed (see Exhibits B, C and D of the Peer Review Program Guidelines). It may be helpful to classify comments as those relating to design, performance, compliance-membership, compliance-other, and documentation.		
7. Review the summary of "no" answers on engagements (Step 6) and ascertain that all items considered to be significant are included on a "Matter for Further Consideration" (MFC) form.		
8. Review all MFC forms, including the reviewed firm's written responses. Make sure the reviewed firm agrees with the facts or explains its reasons for disagreement.		



9. Prepare, or obtain from the individual in charge of the review of each office, a memorandum summarizing the results of the review of that office using the format suggested in Appendix A to this checklist.
10. Prepare draft of firm-wide summary review memorandum (Standards, p. 2-23 and Appendix A to this checklist).
11. Develop a list of points to be discussed at the exit conference. Give appropriate consideration to the distinction between matters that may require modification of the report, other matters that should be included in the letter of comments, and other comments or suggestions.
12. Notify AICPA staff promptly if there is a change in the date of the exit conference.

#### IV. At Completion of Review

1. Communicate findings to appropriate individuals at exit conference (Standards, p. 2-22).<sup>3</sup> The captain should direct the conference to the maximum extent possible. Remind the firm that:
  - a. The report and letter of comments, if any, are not final until accepted by the Peer Review Committee.
  - b. It is the firm's responsibility to send the report and, if applicable, the letter of comments and response thereto, to the AICPA Quality Review Division within 30 days of the date the report and letter of comments are issued.
  - c. The letter of response should be addressed to the Peer Review Committee and should describe the action(s) taken or planned with respect to each matter included in the letter of comments.
2. Prepare appropriate report on results of the review on AICPA letterhead supplied by AICPA staff (Standards, pp. 2-24 to 2-28. See III. 5h, above).

Initial	Date

<sup>3</sup>See footnote 1.

3. Prepare letter of comments, if any, on AICPA letterhead (Standards, pp. 2-28 to 2-31. See III. 5i, above). [If a letter of suggestions is issued, it should not be prepared on AICPA letterhead inasmuch as it is a communication between the review captain and the reviewed firm only (Standards, pp. 2-31 and 2-32).]
4. Complete summary review memorandum which should cover the matters included in the attached Appendix A and should be placed in the working papers. (See attached Appendix A and Standards, p. 2-23.)
5. Within 30 days of the exit conference, submit report and letter of comments, if any, to the firm.
6. Notify AICPA staff that review has been completed and that report and letter of comments, if any, have been issued. (Use attached notification form - Appendix B.)
7. Prepare evaluations of review team members utilizing forms supplied by AICPA and place in working papers.
8. When completed and in condition for review, send all working papers to the AICPA Quality Review Division by an insured carrier. The files should be segregated as follows and should be sent under separate cover:
  - Working papers dealing with individual engagement reviews.
  - Remainder of working papers, including office and firm-wide summary review memorandums and summary engagement checklists.
9. Approve bills for time and expenses of review team members and submit them along with your own bill to the AICPA Quality Review Division for payment. (Reviewers will be paid directly by the AICPA.) Make sure the bills include the federal employer identification number for Form 1099 purposes.

Initial	Date



AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION

Instructions for Use of  
Summary Review Memorandum  
Questionnaire

The "Standards for Performing and Reporting on Peer Reviews" require that a summary review memorandum (SRM) be prepared. The purpose of the SRM is to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report and letter of comments issued, and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in the letter of comments.

Separate SRMs ordinarily should be prepared for each office visited, and a firm-wide SRM should be prepared describing the overall findings and conclusions.

The attached questionnaire, if properly completed, should provide the documentation necessary to meet the aforementioned objectives. If there is insufficient space in the questionnaire to fully describe any matters, additional sheets should be used and attached to the questionnaire.

Experience indicates that the questionnaire can best be utilized for peer reviews of firms with three or fewer offices. Peer reviews of firms with more than three offices may require a separately prepared and more detailed memorandum.

A copy of the firm-wide summary review memorandum and of an appropriate team captain checklist must be submitted to the staff of the Quality Review Division for all reviews, whether conducted by committee-appointed review teams, firms, or teams appointed by authorized associations or state societies.

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
SUMMARY REVIEW MEMORANDUM  
Firm-Wide

Reviewed Firm's Name \_\_\_\_\_

Reviewed Firm's Address \_\_\_\_\_

Peer Review Year End \_\_\_\_\_

I. Description of Firm

A. Professional Staff Profile (if the firm has more than one office, consider providing the breakdown by office):

	<u>TOTAL</u>
Partners (or equivalent)	
Managers (or equivalent)	
Other Professionals	_____
	=====

B. Accounting and Auditing Statistics:

	OFFICES							
	TOTAL		_____		_____		_____	
	Hrs.	No.of Engs.	Hrs.	No.of Engs.	Hrs.	No.of Engs.	Hrs.	No.of Engs.
Audits:								
SEC Clients								
Governmental <sup>1</sup>								
Other								
Reviews								
Compilations								
Other Accounting								
Services <sup>2</sup>								

<sup>1</sup>Includes audits subject to the Government Auditing Standards.

<sup>2</sup>Encompasses all other accounting and auditing services for which professional standards have been established, including engagements to report on an entity's system of internal accounting control, its financial forecast, etc.

C. Indicate extent of industry specializations, if any:

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## II. Planning the Review

### A. Composition of Review Team:

1. Team Captain \_\_\_\_\_  
Firm \_\_\_\_\_ Position \_\_\_\_\_  
Areas of Experience<sup>3</sup> \_\_\_\_\_
2. Team Member \_\_\_\_\_  
Firm \_\_\_\_\_ Position \_\_\_\_\_  
Areas of Experience<sup>3</sup> \_\_\_\_\_
3. Team Member \_\_\_\_\_  
Firm \_\_\_\_\_ Position \_\_\_\_\_  
Areas of Experience<sup>3</sup> \_\_\_\_\_

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<sup>3</sup>As it relates to the reviewed firm's practice.

- B. Describe basis for and degree of reliance on the firm's inspection program. (Reliance should not be placed on the firm's inspection program when one was not performed during the current year.)

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- C. If the firm was previously reviewed, indicate, based on your evaluation of the actions taken by the firm in response to the matters in the prior report and letter of comments, whether such matters required additional emphasis in the current review.

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- D. Development of Review Program:

1. Describe peer review programs used and indicate any deviations therefrom:

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2. Describe number of offices selected and basis for selection:

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3. Describe basis for selection of engagements:

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E. Timing of Review:

Commencement \_\_\_\_\_

Exit Conference \_\_\_\_\_

Issuance of report and, if applicable, letter of comments \_\_\_\_\_

Mailing of working papers (committee-appointed review teams only) or  
team captain checklist and SRM to AICPA \_\_\_\_\_

### III. Scope of Work Performed

A. Indicate functional areas not reviewed and give reasons:

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B. Engagements Reviewed:

	OFFICES							
	TOTAL							
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
Audits:								
SEC Clients								
Governmental <sup>4</sup>								
Other								
Reviews								
Compilations								
Other Accounting Services <sup>5</sup>								
Percentage of A&A Practice Reviewed								

C. Were you requested not to review any engagements? Yes \_\_\_ No \_\_\_. If yes, describe the reason for the request and whether you were satisfied as to the reason and the effect on the scope of the review.

<sup>4</sup>See footnote 1.

<sup>5</sup>See footnote 2.

IV. Overall Findings and Conclusions:

A. Attach a copy of the report issued.

B. Was a letter of comments issued? Yes \_\_\_\_ No \_\_\_\_\_. If yes, attach a copy. If no, give reason why no letter of comments was issued.

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C. If the firm performed an inspection for the year covered by the peer review, or for a period close to the peer review year, do the inspection findings differ in one or more significant respects from the findings of the peer review? Yes \_\_\_\_ No \_\_\_\_\_. If yes, briefly describe the general nature of the differences and their effects on the scope of the peer review.

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- D. In a review of a multi-office firm, did the review team conclude that the degree of noncompliance at one or more offices was of such significance that a condition was created in which there was more than a remote possibility that the office(s) would not conform with professional standards on accounting and auditing engagements? Yes\_\_\_ No\_\_\_. If yes, briefly describe the nature and extent of the deficiencies noted in the office(s) or attach a copy of the summary review memorandum prepared on that office.

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- E. If a letter of comments was issued, were there any matters included in the letter that did not result in a modified report for which the review team considered modifying the report? Yes\_\_\_ No\_\_\_. If yes, describe such matters fully, including the basis for the conclusion that a report modification was not warranted.

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This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

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- This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

- J. Did the reviewers conclude in any instances that the firm lacked a reasonable basis for a report issued in accordance with the standards for accountants' services on prospective financial information or any other standards not encompassed in items G, H, and I of this section? Yes \_\_\_\_\_ No \_\_\_\_\_. If noted, describe such instances fully, indicate whether the firm agrees with you, describe the actions the firm has taken or plans to take, and indicate whether you concur with that action.

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This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Date \_\_\_\_\_





# ATTACHMENT

## Cost Information (Required only for committee-appointed review teams)

### A. Budget to Actual Comparison

	<u>Budgeted Hours</u>	<u>Actual Hours</u>		
		<u>Total</u>	<u>Team Captain</u>	<u>Team Member(s)</u>
Planning	_____	_____	_____	_____
Engagement Review	_____	_____	_____	_____
Quality Control System Review	_____	_____	_____	_____
Membership Requirements	_____	_____	_____	_____
Exit Conference	_____	_____	_____	_____
Report	_____	_____	_____	_____
Letter of Comments	_____	_____	_____	_____
Other (describe if significant)	_____	_____	_____	_____
Total Hours	_____	_____	_____	_____
Range per Engagement Letter	_____			
Rate/Hour			_____	_____
Total Amount			_____	_____

B. Does actual time exceed the upper end of the estimated range by more than 10%? Yes \_\_\_\_ No \_\_\_\_ . If yes, describe the reasons for the overrun, indicate that the matter has been discussed with the reviewed firm, and indicate whether the overrun is acceptable to the firm.

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Team Captain \_\_\_\_\_

Date \_\_\_\_\_



AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REVIEW COMPLETION NOTIFICATION FORM

Date: \_\_\_\_\_

To: Quality Review Division  
American Institute of CPAs  
1211 Avenue of the Americas  
New York, NY 10036-8775

From: \_\_\_\_\_  
(Name of the Review Team Captain)

Re: Review of \_\_\_\_\_  
Firm Number \_\_\_\_\_ Review Number \_\_\_\_\_

- 
1. On what date was the firm-wide exit conference held? \_\_\_\_\_
  2. When was the report delivered to the reviewed firm? \_\_\_\_\_
  3. What was the general nature of the report? \* \_\_\_\_\_
  4. If the report was modified, what were the reasons for the modification? \* \_\_\_\_\_
  5. When will the working papers be shipped to the AICPA Quality Review Division? \_\_\_\_\_

\* \* \* \* \*

Team Captain Signature \_\_\_\_\_

\* Please use the report codes on reverse.

## REPORT CODES

### GENERAL NATURE OF THE REPORT

- 1 Unqualified Without a Letter of Comments
- 2 Unqualified With a Letter of Comments
- 3 Modified—Quality Control System (only)
- 4 Modified—Membership Requirements of the Division for CPA Firms (only)
- 5 Modified—Scope Limitation (only)
- 6 Modified—Quality Control System and Membership Requirements of the  
Division for CPA Firms
- 7 Adverse

### REASONS FOR QUALITY CONTROL SYSTEM MODIFICATIONS

- 301 Independence
- 302 Consultation
- 303 Supervision
- 304 Professional Development
- 305 Assigning Personnel to Engagements
- 306 Hiring
- 307 Advancement
- 308 Acceptance of Clients
- 309 Continuance of Clients
- 310 Inspection

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
Review Team Captain Checklist  
for Firm-on-Firm, Association-Sponsored  
and State Society-Sponsored  
Peer Reviews

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This checklist should be used in conjunction with the other materials used by your entity to implement the peer review program of the Private Companies Practice Section of the AICPA Division for CPA Firms. A copy of this checklist should be submitted to the AICPA together with a copy of the firm-wide summary review memorandum (Appendix A), including copies of any documents incorporated by reference. Questions regarding the use of this checklist or about the review in general should be directed to the AICPA Quality Review Division at 212/575-6650.<sup>1</sup>

**I. Prior to the Review**

1. Review background information furnished by the firm for completeness and obtain additional information, if needed (Standards, pp. 2-14 and 2-15).
2. Notify the AICPA staff of the composition of the review team. Consider the need for individuals with expertise in specialized areas (Standards, pp. 2-9 and 2-10) and the requirement that reviewers be independent of the reviewed firm (Standards, pp. 2-7 to 2-9 and Appendix A). Review and approve the composition of the review team.
3. Discuss with AICPA staff the estimated date of the firm-wide exit conference.<sup>2</sup>

Initial	Date

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<sup>1</sup>If the AICPA Review Team Captain Checklist for committee-appointed review teams or a similar checklist is used, it may be submitted in place of this checklist.

<sup>2</sup>The review team ordinarily should not hold the exit conference until the results of the peer review have been summarized and the report and letter of comments, if any, have been drafted, or a detailed outline has been prepared of the matters to be included in these documents. If there is uncertainty about the type of report to be issued, the review team should postpone the exit conference until a decision is reached (Standards, p. 2-22).



4. Call the firm sufficiently in advance of the review in order to make necessary arrangements. During the call (or visit):

- a. Make certain that the firm has completed the Quality Control Policies and Procedures Questionnaire portion of the Peer Review Program Guidelines (Section 1).
- b. Obtain and evaluate documentation summarizing the inspection program implemented by the firm (Standards, pp. 2-16 and 2-17).
- c. If the firm uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, or questionnaires) that have been purchased from another accounting firm or some other third party and that have been reviewed by an independent third party, obtain a copy of the most recent report, letter of comments, and response thereto issued in conjunction with the review of those materials (Peer Review Program Guidelines, p. 2-9).
- d. Ascertain which persons in the firm are responsible for the various quality control functions and arrange an interview schedule for the review team with such persons.
- e. For multi-office firms, determine which procedures must be reviewed at practice offices and select certain offices for visit (Standards, pp. 2-13, 2-14, 2-17 and 2-18). Inform the reviewed firm of offices selected for visit as close to the scheduled review dates as practicable. However, the visits are not expected to be on a surprise basis.
- f. Select a review period which covers a current period of one year. This review period should be mutually agreed upon by the reviewed firm and the review team captain (Standards, p. 2-12 and Appendix B). The review should ordinarily be conducted within three or four months following the end of the year to be reviewed. The review period does not have to coincide with the reviewed firm's fiscal year-end.

Initial	Date

- g. Make a preliminary selection of engagements for review (Standards, pp. 2-18 to 2-20 and Appendix C). If the firm conducts one or more audits subject to the Government Auditing Standards at least one such engagement should be selected; engagements subject to the Single Audit Act of 1984, especially those covering major programs, should be given priority when making that selection (Update 8-C). Engagements selected for review should be those with years ending during the period under review unless a more recent report has been issued at the time of selection (Standards, purchaser. 2-19).
- For those engagements selected, request the firm to complete the profile sheets of the engagement review checklists.<sup>3</sup> In order to maintain client confidentiality, code numbers should be assigned to engagements selected.
  - If the firm states that certain engagements that you have selected are not to be reviewed, determine the reasonableness of the explanation. Consider what other actions may be appropriate in the circumstances and whether the engagements excluded from review place a limitation on the scope of the review (Standards, p. 2-13).

## II. At Beginning of Review (Before Starting)

1. Arrive at the firm's office prior to the other review team members in order to perform preliminary planning, as necessary.
2. Instruct the reviewers as to the manner in which working papers, questionnaires, checklists, and other notes relating to the review are to be prepared during the course of the review to facilitate summarization (Standards, pp. 2-22 and 2-23). Explain the method of

Initial      Date


<sup>3</sup>To minimize any inference that advance selections may afford undue opportunities for last minute "clean-up" of the files, it is preferable that the selection of some engagements not be made known to the firm (or office) until the review team arrives.

documenting the matters that, in the reviewer's opinion, could be significant deficiencies in the design of the firm's quality control policies and procedures or significant lack of compliance therewith and that might affect the review team's report or be included in the letter of comments. (The form provided for documentation of such items is captioned "Matter for Further Consideration.")

3. Make final selection of engagements for review and request working papers and other client files.
4. Explain "key-area" concept of engagement reviews to reviewers. (See "Emphasis on Key Audit Areas" in the "General Instructions to Reviewers.")
5. If the firm was previously reviewed (Standards, p. 2-13):
  - a. Document the review team's evaluation of the actions taken by the firm in response to the prior report and letter of comments.
  - b. Consider whether matters, if any, discussed in the firm's prior report, letter of comments, and response thereto require additional emphasis in the current review.

### III. During the Review

1. Gain an understanding of the firm's professional and management environment and the business environment in which the firm and its clients practice.
2. Prepare or supervise the preparation of modifications to programs and tests of compliance with the firm's quality control system after studying and evaluating the system and the firm's inspection program. Approve the nature and extent of tests to be performed.
3. Ascertain that the scope of the peer review includes an adequate sample of audit and accounting engagements and consider whether there is a need for further modifications in program or approach.

Initial	Date

4. For multi-office firms, determine that arrangements are made for an exit conference at each office visited by reviewers (to the extent deemed necessary).
5. Consult with AICPA staff whenever any of the following situations develop:
  - a. When difficulties are encountered or circumstances appear to dictate departure from the guidelines - e.g., such as in selection of engagements for review.
  - b. When difficulties are encountered in selecting a reasonable cross section of the firm's accounting and auditing practice based on the engagement selection criteria set forth in the peer review standards.
  - c. When the review team feels it does not have the required expertise to satisfactorily accomplish the required engagement reviews.
  - d. When consideration is being given to suspending or terminating the review.
  - e. When the review team encounters a situation where it and the reviewed firm disagree about whether there is a need to take action to prevent future reliance on a previously issued report, pursuant to the AICPA's Professional Standards, vol. 1, AU section 561.
  - f. When the review team encounters a situation where it and the reviewed firm disagree about whether there is a need for additional auditing procedures to provide a satisfactory basis for a previously expressed opinion, pursuant to the AICPA's Professional Standards, vol. 1, AU section 390.
  - g. When the review team encounters a situation where it and the reviewed firm disagree about whether the firm had a reasonable basis under the standards for accounting and review services for the report issued.

Initial	Date

- h. When issuance of a modified report is being considered.
  - i. When no letter of comments will be issued.
  - j. When the firm has had a significant acquisition or divestiture during, or subsequent to, the peer review period.
6. Prepare a summary of "no" answers on engagements for each office reviewed (see Exhibits B, C and D of the Peer Review Program Guidelines). It may be helpful to classify comments as those relating to design, performance, compliance-membership, compliance-other, and documentation.
  7. Review the summary of "no" answers on engagements (Step 6) and ascertain that all items considered to be significant are included on a "Matter for Further Consideration" (MFC) form.
  8. Review all MFC forms, including the reviewed firm's written responses. Make sure the reviewed firm agrees with the facts or explains its reasons for disagreement.
  9. Prepare, or obtain from the individual in charge of the review of each office, a memorandum summarizing the results of the review of that office using the format suggested in Appendix A to this checklist.
  10. Prepare draft of firm-wide summary review memorandum (Standards, p. 2-23 and Appendix A to this checklist).
  11. Develop a list of points to be discussed at the exit conference. Give appropriate consideration to the distinction between matters that may require modification of the report, other matters that should be included in the letter of comments, and other comments or suggestions.
  12. Notify AICPA staff promptly if there is a change in the date of the exit conference.

Initial	Date

IV. At Completion of Review

1. Communicate findings to appropriate individuals at exit conference (Standards, p. 2-22).<sup>4</sup>  
The captain should direct the conference to the maximum extent possible. Remind the firm that:
  - a. The report and letter of comments, if any, are not final until accepted by the Peer Review Committee.
  - b. It is the firm's responsibility to send the report and, if applicable, the letter of comments and response thereto, to the AICPA Quality Review Division within 30 days of the date the report and letter of comments are issued.
  - c. The letter of response should be addressed to the Peer Review Committee and should describe the action(s) taken or planned with respect to each matter included in the letter of comments.
2. Prepare appropriate report and letter of comments on the results of the review. If the review is performed by another firm, the report and letter of comments should be on the reviewing firm's letterhead and signed by the reviewing firm. If the review is performed by a team appointed by an authorized association or state society, the report should be on the letterhead of the entity that appointed the review team and signed by the review team captain, without reference to the captain's firm.
3. Complete summary review memorandum which should cover the matters included in the attached Appendix A and should be placed in the working papers. (See attached Appendix A and Standards, p. 2-23.)
4. Within 30 days of the exit conference, submit report and letter of comments, if any, to the firm.
5. Within 30 days of the exit conference, submit the following to the AICPA Quality Review Division:
  - a. This checklist.

Initial      Date


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<sup>4</sup>See footnote 2.

- b. Firm-wide summary review memorandum (Appendix A), including copies of the report, letter of comments, and any other documents incorporated by reference. (Standards, p. 2-23).
  - c. Copies of all MFC forms.
6. Notify AICPA staff that the review has been completed and the report and letter of comments, if any, have been issued. (Use attached notification form - Appendix C.)

Initial	Date

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION

Instructions for Use of  
Summary Review Memorandum  
Questionnaire

The "Standards for Performing and Reporting on Peer Reviews" require that a summary review memorandum (SRM) be prepared. The purpose of the SRM is to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report and letter of comments issued, and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in the letter of comments.

Separate SRMs ordinarily should be prepared for each office visited, and a firm-wide SRM should be prepared describing the overall findings and conclusions.

The attached questionnaire, if properly completed, should provide the documentation necessary to meet the aforementioned objectives. If there is insufficient space in the questionnaire to fully describe any matters, additional sheets should be used and attached to the questionnaire.

Experience indicates that the questionnaire can best be utilized for peer reviews of firms with three or fewer offices. Peer reviews of firms with more than three offices may require a separately prepared and more detailed memorandum.

A copy of the firm-wide summary review memorandum and of an appropriate team captain checklist must be submitted to the staff of the Quality Review Division for all reviews, whether conducted by committee-appointed review teams, firms, or teams appointed by authorized associations or state societies.



AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION

SUMMARY REVIEW MEMORANDUM  
Firm-Wide

Reviewed Firm's Name \_\_\_\_\_

Reviewed Firm's Address \_\_\_\_\_

Peer Review Year End \_\_\_\_\_

**I. Description of Firm**

A. Professional Staff Profile (if the firm has more than one office, consider providing the breakdown by office):

	<u>TOTAL</u>
Partners (or equivalent)	
Managers (or equivalent)	
Other Professionals	_____
	=====

B. Accounting and Auditing Statistics:

	<u>TOTAL</u>	<u>OFFICES</u>					
	<u>No.of</u>	<u>No.of</u>		<u>No.of</u>		<u>No.of</u>	
	<u>Hrs.</u>	<u>Engs.</u>	<u>Hrs.</u>	<u>Engs.</u>	<u>Hrs.</u>	<u>Engs.</u>	<u>Hrs.</u>
Audits:							
SEC Clients							
Governmental <sup>1</sup>							
Other							
Reviews							
Compilations							
Other Accounting							
Services <sup>2</sup>							
	_____	_____	_____	_____	_____	_____	_____
	=====	=====	=====	=====	=====	=====	=====

<sup>1</sup>Includes audits subject to the Government Auditing Standards.

<sup>2</sup>Encompasses all other accounting and auditing services for which professional standards have been established, including engagements to report on an entity's system of internal accounting control, its financial forecast, etc.

C. Indicate extent of industry specializations, if any:

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## II. Planning the Review

### A. Composition of Review Team:

1. Team Captain \_\_\_\_\_

Firm \_\_\_\_\_ Position \_\_\_\_\_

Areas of Experience<sup>3</sup> \_\_\_\_\_

2. Team Member \_\_\_\_\_

Firm \_\_\_\_\_ Position \_\_\_\_\_

Areas of Experience<sup>3</sup> \_\_\_\_\_

3. Team Member \_\_\_\_\_

Firm \_\_\_\_\_ Position \_\_\_\_\_

Areas of Experience<sup>3</sup> \_\_\_\_\_

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<sup>3</sup>As it relates to the reviewed firm's practice.

- B. Describe basis for and degree of reliance on the firm's inspection program. (Reliance should not be placed on the firm's inspection program when one was not performed during the current year.)

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- C. If the firm was previously reviewed, indicate, based on your evaluation of the actions taken by the firm in response to the matters in the prior report and letter of comments, whether such matters required additional emphasis in the current review.

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D. Development of Review Program:

1. Describe peer review programs used and indicate any deviations therefrom:

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2. Describe number of offices selected and basis for selection:

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3. Describe basis for selection of engagements:

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E. Timing of Review:

Commencement \_\_\_\_\_

Exit Conference \_\_\_\_\_

Issuance of report and, if applicable, letter of comments \_\_\_\_\_

Mailing of team captain checklist and SRM to AICPA \_\_\_\_\_

III. Scope of Work Performed

A. Indicate functional areas not reviewed and give reasons:

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**B. Engagements Reviewed:**

	OFFICES							
	TOTAL							
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
Audits:								
SEC Clients								
Governmental <sup>4</sup>								
Other								
Reviews								
Compilations								
Other Accounting Services <sup>5</sup>								
Percentage of A&A Practice Reviewed								

C. Were you requested not to review any engagements? Yes \_\_\_\_ No \_\_\_\_ . If yes, describe the reason for the request and whether you were satisfied as to the reason and the effect on the scope of the review.

<sup>4</sup>See footnote 1.

<sup>5</sup>See footnote 2.

**IV. Overall Findings and Conclusions:**

A. Attach a copy of the report issued.

B. Was a letter of comments issued? Yes \_\_\_\_ No \_\_\_\_\_. If yes, attach a copy. If no, give reason why no letter of comments was issued and attach copies of MFC forms.

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C. If the firm performed an inspection for the year covered by the peer review, or for a period close to the peer review year, do the inspection findings differ in one or more significant respects from the findings of the peer review? Yes \_\_\_\_ No \_\_\_\_\_. If yes, briefly describe the general nature of the differences and their effects on the scope of the peer review.

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D. In a review of a multi-office firm, did the review team conclude that the degree of noncompliance at one or more offices was of such significance that a condition was created in which there was more than a remote possibility that the office(s) would not conform with professional standards on accounting and auditing engagements? Yes \_\_\_\_ No \_\_\_\_\_. If yes, briefly describe the nature and extent of the deficiencies noted in the office(s) or attach a copy of the summary review memorandum prepared on that office.

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- E. If a letter of comments was issued, were there any matters included in the letter that did not result in a modified report for which the review team considered modifying the report? Yes\_\_\_ No\_\_\_. If yes, describe such matters fully, including the basis for the conclusion that a report modification was not warranted.

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- F. Describe the nature and extent of each matter discussed at the exit conference and/or communicated to senior management of the reviewed firm that was not deemed of sufficient significance to include in a letter of comments.

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- G. Did the review disclose any situations that led the reviewers to conclude that the reviewed firm should consider taking action to prevent future reliance on a previously issued report, pursuant to the AICPA's Professional Standards, vol. 1, AU section 561? Yes\_\_\_\_\_ No\_\_\_\_\_. If noted, describe such situations fully, indicate whether the firm did consider the matter, describe the actions the firm has taken or plans to take, and indicate whether you concur with that action.



- H. Did the review disclose any situations that led the reviewers to conclude that the reviewed firm should consider performing additional auditing procedures to provide a satisfactory basis for a previously expressed opinion, pursuant to the AICPA's Professional Standards, vol. 1, AU section 390? Yes\_\_\_ No\_\_\_. If noted, describe such situations fully, indicate whether the firm did consider the matter, describe the actions the firm has taken or plans to take, and indicate whether you concur with that action.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



- J. Did the reviewers conclude in any instances that the firm lacked a reasonable basis for a report issued in accordance with the standards for accountants' services on prospective financial information or any other standards not encompassed in Items G, H, and I of this section? Yes        No       . If noted, describe such instances fully, indicate whether the firm agrees with you, describe the actions the firm has taken or plans to take, and indicate whether you concur with that action.

This image shows a single sheet of white paper with horizontal black lines, resembling notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

- K. If reliance is being placed on the firm's inspection program for the current year, did the reviewed firm's inspection program identify any engagements on which the firm must consider taking action pursuant to the standards cited in Items G, H, I and J of this section? Yes \_\_\_\_ No \_\_\_\_\_. If noted, describe such instances fully, indicate whether the firm agrees with you, describe the actions the firm has taken or plans to take, and indicate whether you concur with that action.

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- L. The following is the actual or best estimate of the number of hours expended to complete the peer review.

	Actual Review Hours
Team Captain	_____
Team Member(s)	A. _____
	B. _____
	C. _____
	D. _____
Total Review Hours	=====

Team Captain \_\_\_\_\_

Date \_\_\_\_\_

(Optional)

COMMENTS TO IMPROVE AUDITING STANDARDS

A significant potential benefit of the peer review process is the opportunity it provides to identify areas of practice where improvements can be made in professional standards. The chairmen of both the SECPS and PCPS Peer Review Committees meet annually with representatives of the Auditing Standards Board to discuss the implications of peer review results for standard-setting. However, the chairmen believe the personal advice of those participating in peer reviews needs to be added to the process.

Your observations of the policies and practices in many different firms and your judgments about the efficient and effective application of professional standards are potentially valuable sources of input for the Board. The Auditing Standards Board would appreciate receiving your comments on the attached questions as well as any other information that would be helpful to the standard-setting process. Responses should address areas where standards can be improved rather than specific peer review engagements and should not include the names of any reviewed firms. Responses should be sent directly to Dan M. Guy, Vice President-Auditing, AICPA, 1211 Avenue of the Americas, New York, NY 10036. The Auditing Standards Board thanks you in advance for your contribution.

American Institute of Certified Public  
Accountants  
Division for CPA Firms  
Private Companies Practice Section

Questionnaire

(use additional sheets for your comments, if necessary)

1. Are there certain Statements on Auditing Standards that practitioners seem to have unusual difficulty in applying? Yes \_\_\_\_ No \_\_\_\_\_. If yes, which ones? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
2. Have you observed a pattern of misapplication of any particular Statement on Auditing Standards or auditing interpretation? Yes \_\_\_\_ No \_\_\_\_\_. If yes, which ones? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
3. What type of clarification or guidance would help make these standards clearer and more useful? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
4. Have you observed any practice areas where you believe additional auditing guidance would be helpful? For example, are there areas of practice where firms' practices or policies differ significantly? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Team Captain \_\_\_\_\_

Date \_\_\_\_\_

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION

APPENDIX C

REVIEW COMPLETION NOTIFICATION FORM

Date: \_\_\_\_\_

To: Quality Review Division  
American Institute of CPAs  
1211 Avenue of the Americas  
New York, NY 10036-8775

From: \_\_\_\_\_  
(Name of the Review Team Captain)

Re: Review of \_\_\_\_\_

Firm Number \_\_\_\_\_ Review Number \_\_\_\_\_

- 
1. On what date was the firm-wide exit conference held? \_\_\_\_\_
  2. When was the report delivered to the reviewed firm? \_\_\_\_\_
  3. What was the general nature of the report? \* \_\_\_\_\_
  4. If the report was modified, what were the reasons for the modification? \* \_\_\_\_\_
  5. When will copies of the team captain checklist, the summary review memorandum and related attachments, and the MFC forms be mailed to the AICPA Quality Review Division? \_\_\_\_\_

\* \* \* \* \*

Team Captain Signature \_\_\_\_\_

\* Please use the report codes on reverse.

## REPORT CODES

### GENERAL NATURE OF THE REPORT

- 1 Unqualified Without a Letter of Comments
- 2 Unqualified With a Letter of Comments
- 3 Modified—Quality Control System (only)
- 4 Modified—Membership Requirements of the Division for CPA Firms (only)
- 5 Modified—Scope Limitation (only)
- 6 Modified—Quality Control System and Membership Requirements of the  
Division for CPA Firms
- 7 Adverse

### REASONS FOR QUALITY CONTROL SYSTEM MODIFICATIONS

- 301 Independence
- 302 Consultation
- 303 Supervision
- 304 Professional Development
- 305 Assigning Personnel to Engagements
- 306 Hiring
- 307 Advancement
- 308 Acceptance of Clients
- 309 Continuance of Clients
- 310 Inspection





**AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION**

**INSTRUCTIONS TO REVIEWERS**

**AICPA DIVISION FOR CPA FIRMS**  
**PRIVATE COMPANIES PRACTICE SECTION**

**Instructions to Reviewers**

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**AICPA DIVISION FOR CPA FIRMS**  
**PRIVATE COMPANIES PRACTICE SECTION**  
**General Instructions to Reviewers**

**Introduction**

The purpose of these instructions is to provide guidance for reviewers assigned to peer reviews. They should be read in conjunction with other guidance material issued to implement the peer review program of the Private Companies Practice Section (the "Section") of the AICPA Division for CPA Firms. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at (212) 575-6650.

Peer reviews are intended to evaluate whether, during the year under review, a reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA (see Statement on Quality Control Standards No. 1, paragraph 7) and was being complied with to provide the firm with reasonable assurance of conforming with professional standards. Peer reviews are also intended to evaluate the reviewed firm's compliance with the section's membership requirements.

**Independence and Conflict of Interest**

A peer review is to be conducted with due regard for the confidentiality requirements set forth in the AICPA Code of Professional Conduct. Information obtained as a consequence of the review concerning the reviewed firm or any of its clients is confidential and should not be disclosed by review team members to anyone not associated with the review.

Independence with respect to the reviewed firm must be maintained by the reviewing firm, by review team members, and by consultants who may participate in the review. The AICPA Code of Professional Conduct does not specifically consider relationships between reviewers, reviewed firms, and clients of reviewed firms. However, the concepts pertaining to independence embodied in the code should be considered for their application.

A reviewing firm or a review team member should not have a conflict of interest with respect to the reviewed firm or to those clients of the reviewed firm that are the subject of engagements reviewed.

The personnel of a reviewing firm and the reviewing firm itself are not precluded from owning securities of clients of the reviewed firm. However, a review team member who owns securities of a reviewed firm's client shall not review the engagement of that client since his independence would be considered to be impaired. In addition, the effect of family relationships (spouses, close relatives) and other relationships and the possible loss of the appearance of independence must be considered when assigning team members to review individual engagements.

## **Organization of the Review Team**

A review team is headed by a team captain who directs the organization and conduct of the review, supervises other reviewers, and is responsible for the preparation of a report on the review. The team captain will furnish instructions to the review team regarding the manner in which working papers and other notes relating to the review are to be accumulated to facilitate summarization of the review team's findings and conclusions.

## **The Review**

The review should include the following procedures:

1. Study and evaluation of the reviewed firm's quality control system.
2. Review for compliance with the reviewed firm's quality control system at each organizational or functional level within the firm.
3. Review of selected engagements, including the relevant working paper files and reports of the firm.
4. Review for compliance with the section's membership requirements.
5. Accumulation of a list of points to be discussed at the exit conference, giving appropriate consideration to the distinction between matters that require modification of the report, other matters that should be included in the letter of comments, and other matters that would only be communicated orally in the form of suggestions.
6. Preparation of a report on the review (unqualified or modified).
7. Preparation of a letter of comments, if applicable.

For the review of a firm that obtains quality control materials from a third party, the review team should obtain the most recent report, letter of comments (if any), and letter of response thereto on those materials, if such documents are available. (For association administered reviews, see Appendix B to Section 3 of the Peer Review Manual.) In addition to considering the report relating to the suitability of design of the quality control materials, reviewers should consider the applicability of such materials to the practice of the firm being reviewed. The report on the reviewed firm should not make reference to the review of the materials.

## **Scope of Review**

Reviewers should recognize that firm quality control policies and procedures will likely differ between small and large firms (e.g., the necessity for job descriptions) and between small and large offices of multi-office firms (e.g., the procedures for assigning personnel to engagements). In testing a firm's quality control policies and procedures, the review should be tailored to the particular firm. Peer review program guidelines have been prepared and are included elsewhere in this manual.

The scope of the review should cover a firm's accounting and auditing practice, which encompasses all auditing and all accounting, review, and compilation services for which professional standards have been established, and includes, for example, engagements to report on an entity's system of internal accounting control and its financial forecast. Other segments of a firm's practice, such as providing tax services or management advisory services, are not encompassed by the scope of the review except (1) to the extent they are associated with financial statements (for example, reviews of tax provisions and accruals contained in financial statements are included in the scope of the review) or (2) as they relate to compliance with the membership requirements of the section. Review team members are not to have contact with, or access to, any client of the reviewed firm in connection with the review.

The review will be directed to the professional aspects of the reviewed firm's accounting and auditing practice; it will not include the business aspects of that practice. It may be difficult, however, to distinguish between these aspects of the practice since they may overlap. For example, in evaluating whether the supervision of an engagement was adequate, review team members would consider budgeted and actual time spent on the engagement by various categories or classifications of personnel but would not inquire as to fees billed to the client or the relationship of fees billed to time accumulated at usual or standard billing rates.

Further, when reviewing policies and procedures for advancement, review team members would concern themselves with whether professional personnel were promoted based on demonstrated competence and whether criteria for admission of individuals to the firm give appropriate weight to professional qualifications but would not review compensation of professional personnel.

The review team should obtain the reviewed firm's latest peer review report and, if applicable, its letter of comments and response thereto, from the firm or from the AICPA and should consider whether matters discussed therein require additional emphasis in the current review. In all cases, the review team should evaluate the actions taken by the firm in response to the prior report and letter of comments. If the prior review team's working papers have not been made available before the planning of the current review, the team captain should request the reviewed firm to authorize the predecessor to allow him to review the working papers.

The reviews of engagements should usually be directed toward the accounting and auditing work performed by the practice offices visited, including work performed for another office of the reviewed firm, for a correspondent firm, or for an affiliated firm. For those situations in which engagements selected in the practice office reviewed include the use of work of another office, correspondent, or affiliate (domestic or international), the reviewer, however, should evaluate the instructions for the engagement issued by the reviewed office to the parties responsible for performing the work. In addition, the scope of the review should encompass the procedures by which the reviewed office maintained control over the engagement through supervision (including visits by its supervisory personnel to other locations) and review of the work performed by the other offices, correspondents, or affiliates.

There may be situations when information available to the review team is insufficient to evaluate whether the reviewed firm's quality control policies and procedures have been applied in supervising segments of engagements performed by other offices or firms. In these instances, it will be necessary to obtain documentation from such other offices or firms; usually this may be accomplished by arranging for the forwarding of the requested information to the reviewed office.

### **Extent of Engagement Review**

The objectives of the review of engagements are to obtain evidence of (1) whether the reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA to the extent such objectives are applicable to its practice, (2) whether the reviewed firm complied with the policies and procedures that constituted its system of quality control during the year under review, and (3) whether the reviewed firm complied in all material respects with the applicable membership requirements of the section during the year under review. To the extent necessary to achieve these objectives, the review of engagements should include review of financial statements, accountants' reports, working papers, and correspondence, and should include discussions with professional personnel of the reviewed firm.

Since, in most cases the engagement personnel will not be responsible for establishing firm policies, the reviewer should not challenge firm policies in discussions with engagement personnel. If any questions or observations regarding the appropriateness of the firm's policies and procedures develop as a result of the engagement reviews, these matters should be discussed with the team captain.

On individual engagements, reports other than on the basic financial statements (special reports, limited reviews, etc.) may have been issued during the period under review. If such reports have been issued or if separate financial statements have been issued on subsidiaries, the team captain should be consulted regarding the amount of work to be done in these areas on each engagement.

If significant parts of the firm's practice include compilation or review services, cash-basis statements, financial forecasts and projections, etc., certain of those reports and related working papers should be reviewed.

### **Engagement Review Technique**

Background information about an engagement should be obtained by discussion with the engagement partner and by reading the engagement profile sheet (which should be completed by the reviewed firm prior to commencement of the review of the engagement), the primary financial statements and any program sections, memoranda or other working papers describing the company and its business, the firm's audit approach and problem areas. Work is most efficiently completed by first reviewing the "top files," applicable sections of the work programs, correspondence files, consolidating working papers and other key audit area working papers and then completing the engagement review checklist. Then, any unanswered questions on the checklist can be completed by additional reference to the engagement files.

## **Approach to the Review**

The review should give primary emphasis to the reviewed firm's overall approach to the engagement, rather than the specific procedures performed. The engagement review checklists (which can be used for most engagements) contain the following sections<sup>1/</sup>:

1. The first section of each checklist contains questions on the accountant's report and the accompanying financial statements and footnotes. This section of the checklist ordinarily would be completed for engagement reviews. However, on peer reviews of firms that have their own report and financial statement disclosure checklist that is completed by the firm's personnel and filed with the engagement working papers, this section may not have to be completed for each engagement. In such situations, the comprehensiveness of the firm's checklist and the appropriateness of its use on specific engagements should be tested by the review team. Any disclosure or reporting deficiencies identified by the reviewer should be noted in the comments section of the engagement checklist or on a "Matter for Further Consideration" form.
2. The second section of the checklists contains questions concerning planning, preliminary and general procedures that normally should be performed for the applicable type of engagement. This section should be completed for each engagement reviewed.
3. The third section included in the audit engagement checklist contains questions relating to specific audit areas. Although frequently it will not be necessary to answer all of these questions for an audit engagement because of the emphasis on key audit areas, they should be used for guidance concerning the type of questions to be considered when reviewing the audit procedures performed.

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<sup>1/</sup>The "Checklist for Review of Audit Engagements of Not-For-Profit Organizations" and the "Checklist for Review of Audit Engagements of State or Local Governmental Entities, including Those Receiving Federal Financial Assistance" include the first four sections discussed herein. In addition, the former checklist includes an additional section on "Audits of Governmental Grantees," and the latter checklist includes an additional section on "Compliance with the Requirements of the Single Audit Act of 1984."



4. The fourth section of the checklist for review of audit engagements and the third section of the checklists for review of review and compilation engagements contains questions concerning the functional areas of a firm's quality control system. These questions are based on the typical policies and procedures that might be established by a firm. All the policies and procedures included in these questions will not have been adopted by all firms. Therefore, the team captain should determine, before the engagement reviews are conducted, if modifications to the checklists are necessary to fit the policies and procedures adopted by the reviewed firm, as detailed in the completed Peer Review Program Guidelines. For example, a number of the questions are not applicable to sole practitioners without full-time professional staff or additional questions may have to be added regarding the use of required standard forms. These sections should be completed for each engagement reviewed.
5. The fifth section of the audit engagement questionnaire includes a separate list of questions to be answered on SEC engagements. In order to answer these questions it may be necessary for the reviewer to refer to an SEC or other specialized disclosure checklist.

All "no" answers for each type of engagement should be summarized in the Peer Review Program Guidelines. See exhibits B, C and D in the Peer Review Program Guidelines included elsewhere in this loose-leaf manual.

The general checklists for audit, review and compilation engagements were developed for use in reviewing engagements of "for-profit" companies and probably will require extensive modification or supplementation for engagements involving companies in specialized industries (e.g., insurance, construction, and finance companies). Specialized checklists have been developed for audit engagements of state or local government entities, including those receiving federal financial assistance, and audit engagements of not for profit entities. These checklists are included elsewhere in this manual.

Generally, a "no" answer to a question indicates possible noncompliance with a firm policy and/or professional standards. All "no" answers should be cross-referenced to either: (1) an MFC form, or (2) if no MFC was generated, to the standardized comment sheets provided at the end of each checklist. The MFC forms and standardized comment sheets should include a description of the disposition of each "no" answer.

The explanatory comments to "no" answers should be reviewed with the engagement partner to obtain his agreement or to note his disagreement and the reasons.

Except where specifically requested, it is not necessary to document the work the reviewer performed to form an opinion on each question. The answer to the question and the signing of the checklist indicate that the reviewer has completed the necessary testing to answer the question through reading documents or discussions with firm personnel. Naturally, when documentary evidence is available, it should be reviewed. Discussions with personnel should be used only for background purposes, to clarify points, or to provide satisfaction when documentation is not available.

### **Emphasis on Key Audit Areas**

The depth of the review of working papers for particular engagements is left to the judgement of the reviewers; however, the review should ordinarily include all the key areas of an engagement. Thus, a page-by-page review of all working papers is not contemplated. Points to consider in determining the key areas include:

1. Key areas in the client's industry (e.g., revenue recognition for construction companies; inventory and accounts receivable for manufacturing and retail concerns; policy reserves for insurance companies; or loan loss allowances for financial institutions).
2. Key areas noted during the review of the financial statements and discussions with engagement personnel (e.g., review of loan defaults or follow-up of litigation matters).
3. Key areas identified by the firm in planning or conducting the engagement.
4. Recent accounting and auditing developments and pronouncements.
5. Weaknesses noted in other engagements reviewed.
6. Weaknesses noted by the firm during its inspection program.
7. Weaknesses noted in the prior peer review.

The selection of the key areas should be directed toward maximizing the effectiveness of the review, as well as determining the extent to which the firm's personnel recognized the key areas. Ordinarily, in applying the "key area" concept, all key areas should be reviewed. However, to keep time requirements within reasonable limits, reviewers may decide not to review all key areas of a specific engagement. For example, in some of the initial audit engagements or specialized industry engagements selected for review, attention might be limited to the special areas of the engagements since the engagements were specifically selected to test those areas. In such cases, the reviewer should document in his working papers the reasons why all key areas were not reviewed.<sup>2/</sup> (See Appendix E, "Selecting Engagements for Review," in the Standards for Performing and Reporting on Peer Reviews for additional guidance on the application of the key area concept.)

No definitive guidance can be provided regarding the depth of review to be given to these key areas, but the reviewer should evaluate whether the firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements (see SAS No. 31).

### **Findings and Conclusions**

For each engagement reviewed, the review team must document, based on its review of the engagement working papers and representations from the reviewed firm's personnel, whether anything came to the review team's attention that caused it to believe that (1) the financial statements were not presented in all material respects in accordance with generally accepted accounting principles, (2) the firm did not have a reasonable basis under the applicable professional standards for the report issued, (3) the documentation on the engagement did not support the report issued, or (4) the firm did not comply with its quality control policies and procedures in all material respects. Accordingly, a "conclusions" page must be completed for each engagement reviewed to summarize the results of that review.

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<sup>2/</sup>In such cases, the reviewer must exercise judgment in determining how many accounting and auditing hours to claim with respect to the engagement. If only one or a few specific key areas out of many key areas are reviewed on the engagement, such as only the referring office's supervision and control of the work performed by foreign offices or by domestic or foreign affiliates or correspondents, only the hours devoted to the specific area(s) should be claimed. Conversely, if all but one or two specific key areas out of many key areas are reviewed, the review team ordinarily would be justified in claiming all the hours devoted to the engagement except for those devoted to the key areas that were not reviewed. In situations that fall in between the preceding two cases - that is, when the reviewer has reviewed many, but not virtually all, of the key areas - the review team generally would be justified in claiming a percentage of the total hours on the engagement (or on the unit actually reviewed) equal to the hours on the key areas reviewed divided by the hours devoted to all the key areas on the engagement (or on the unit actually reviewed).

In performing engagement reviews, the review team may encounter (a) indications of significant failures by the reviewed firm to reach appropriate conclusions in the application of professional standards which include generally accepted auditing standards, standards for accounting and review services, and generally accepted accounting principles (e.g., the reviewed firm may have issued an inappropriate report on a client's financial statements or omitted a necessary auditing procedure), or (b) situations in which the documentation on the engagement does not appear to support the report issued. In either case, the team captain shall promptly inform an appropriate authority within the reviewed firm (generally on an MFC form). In such circumstances, it is the responsibility of the reviewed firm to investigate the matter questioned by the review team and determine what action, if any, should be taken.<sup>3/</sup> The reviewed firm should advise the review team of the results of its investigation and document the actions taken or planned or its reasons for concluding that no action is required.

If, in either (a) or (b) above, the reviewed firm believes, after investigating the matter, that it can continue to support its previously issued report, it should provide the review team with written representations to that effect (generally on an MFC form). If the representations are reasonable, the review team should conclude that the provisions of AU Sections 390 and 561 do not apply; however, the review team should consider whether the documentation of the engagement supports the report issued. In evaluating the representations, the review team should recognize that it has not made an examination of the financial statements in accordance with generally accepted auditing standards (or reviewed or compiled them in accordance with the standards for accounting and review services), nor does it have the benefit of access to the client's records, discussions with the client, or specific knowledge of the client's business.

If, after reviewing the results of the reviewed firm's investigation, the review team continues to believe that there may be a significant failure to reach appropriate conclusions in the application of professional standards, it should pursue any remaining questions with the reviewed firm.

If the review team still believes that the actions taken by the reviewed firm do not meet the requirements of professional standards, the review team should report the matter promptly, through the AICPA staff, to the Peer Review Committee.

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<sup>3/</sup>The reviewed firm is required under generally accepted auditing standards to take appropriate action under certain circumstances with respect to (1) subsequently discovered information that relates to a previously issued report or (2) the omission of one or more auditing procedures considered necessary to support a previously expressed opinion (AICPA's Professional Standards, Vol. 1, AU Sections 390 and 561).

## Expansion of Scope

If, during the course of the peer review, the review team concludes that there was a significant failure by the reviewed firm to reach an appropriate conclusion on the application of professional standards on an engagement, the review team should consider whether the application of additional review procedures is necessary.<sup>4/</sup> This consideration should be documented in the peer review working papers. The objective of the application of additional procedures would be to determine whether the significant failure is indicative of a pattern of such failures and/or of a significant weakness in the reviewed firm's system of quality control or in compliance with the system. Under some circumstances, the reviewer may conclude that, because of compensating controls, or for other reasons, further procedures are unnecessary. If, however, additional procedures are deemed necessary, they may include an expansion of scope to review all or relevant portions of one or more additional engagements. Such additional engagements may be in the same industry, or supervised by the same individual in the reviewed firm, or otherwise have characteristics associated with the failure to apply professional standards.

## Review Team Working Papers

The peer review working papers should include documentation, on an MFC form, of matters that, in the reviewer's opinion, could indicate (1) that one or more of the applicable objectives of quality control standards were not accomplished by the reviewed firm's policies or procedures, or (2) that the reviewed firm did not comply with professional standards, or the policies and procedures that constitute its quality control system or (3) that the reviewed firm did not comply with a membership requirement. The MFC form should include the reviewer's description of the matters, the reviewed firm's agreement or disagreement with the description and its comments on the matter, and the reviewer's and team captain's comments. The MFC form is to be signed in the places indicated by the reviewer, the team captain and an appropriate partner in the reviewed firm (generally the engagement partner or the partner responsible for the applicable area).

On each MFC form, the reviewer should classify the matter into one of the following:

- Design - The reviewer believes that the firm's quality control policies and procedures, even if fully complied with, are not likely to accomplish an applicable quality control objective.
- Performance - The reviewer believes that the reviewed firm failed to adhere to professional standards, including GAAP, GAAS, and SSARS, even if such deficiencies would not result in a situation where the firm should consider taking action pursuant to the AICPA's Professional Standards, Vol. 1, AU Sections 390 or 561.

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<sup>4/</sup>See page 2-20 and 2-21 for action(s) required regarding the specific engagement involved.

- o Compliance-Membership Requirement - The reviewer believes that the reviewed firm did not comply with an applicable membership requirement of the section.
- o Compliance-Other - The reviewer believes that the reviewed firm did not comply with one of its prescribed policies or procedures even though it did comply with professional standards.
- o Documentation - The reviewer believes that the work performed in a particular area was not documented but, through inquiry or other means, the reviewer is satisfied that the work was performed.

To the extent that there are disagreements or differences of opinion between the reviewed firm and the team captain with respect to the interpretation or effect of matters included on an MFC form, the staff of the AICPA Quality Review Division should be consulted. The results of all consultations should be documented on the MFC form.

### **Completion of the Review**

At the conclusion of field work, the reviewers should (1) summarize all of their findings (including all "no" answers to the individual engagement checklists and MFCs); (2) evaluate the nature, causes, pattern, pervasiveness, and significance of the deficiencies noted in the design of the firm's quality control system and in the firm's compliance with its system, with professional standards, and with the membership requirements of the section; and (3) consider whether such matters should result in a modified report, be included in the letter of comments, or otherwise be communicated to the firm. Exhibits B, C, and D to the Peer Review Program Guidelines, have been designed to assist reviewers in preparing the necessary summary of findings, including "no" answers and MFCs. These summaries of findings should also assist the review team captain in preparing the overall summary review memorandum. For additional guidance on use of these summaries, see the instructions for use of the Peer Review Program Guidelines included elsewhere in this loose-leaf manual.

Prior to the issuance of its report and, if applicable, letter of comments, the review team should communicate its conclusions to the reviewed firm. This communication ordinarily would take place at a meeting (exit conference) attended by appropriate representatives of the review team and the reviewed firm. It is normally expected that the managing partner and the partners having firm-wide responsibility for quality control and accounting and auditing will attend this meeting. The review team should notify the AICPA Quality Review Division staff of the date and time of the scheduled exit conference to permit representatives of the Peer Review Committee to attend the exit conference, if they so elect. The parties should discuss the report and letter of comments, if any, as

well as any suggestions. Accordingly, the review team, except in rare instances, should not hold the exit conference until the results of the peer review have been summarized and the report and letter of comments, if any, have been drafted or a detailed outline has been prepared of the matters to be included in these documents. If there is uncertainty as to the opinion to be expressed, the review team should postpone the exit conference until a decision has been reached. When discussing its findings, recommendations and suggestions at the conference, the review team should give an in-depth explanation of each matter or suggestion.

For the review of a multi-office firm, in addition to the communication described in the preceding paragraph, the review team for a practice office should communicate its findings to appropriate individuals at the office reviewed.

The peer review program provides that, within thirty days of the date of the exit conference, the review team should submit to the reviewed firm a written report and, if applicable, a letter of comments. A copy of the report, the letter, and a response thereto should be submitted by the reviewed firm to the section within thirty days of the date the report and letter were issued.

In cases where the committee has accepted peer review documents "subject to" certain revisions, those revised documents must be received by the committee's staff within 60 calendar days after the Committee meeting at which they were accepted, or else they will be considered to be deferred and will be considered at the committee's next meeting.

A disagreement regarding the type of report to be issued or the comments to be included in the letter of comments may arise among the review team members. When the members are unable to resolve such a disagreement, the matter should be documented and referred, through the AICPA Quality Review Division staff, to the Peer Review Committee for resolution.





**AICPA DIVISION FOR CPA FIRMS**  
**PRIVATE COMPANIES PRACTICE SECTION**

General Instructions to Firms  
Undergoing Peer Reviews

The purpose of these instructions is to provide guidance to firms undergoing peer review in accordance with provisions of the membership requirements of the Private Companies Practice Section of the AICPA Division for CPA Firms. References are to Standards for Performing and Reporting on Peer Reviews (Section 2 in the Peer Review Manual, 1986 edition). All persons in your firm involved in the peer review should read and become familiar with the sections of these standards relative to their part of the review. Although these instructions have been designed for reviews conducted by committee-appointed review teams, to the extent applicable, they should be used as reference on firm-on-firm or association or state-society sponsored reviews. Completion of the following procedures and preparation of the materials requested prior to the firm's review date will facilitate the review process.

Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at (212)575-6650.

**I. Prior to the Review**

1. Your firm and the team captain should agree on an appropriate date for the review to take place.
2. The terms and conditions of the peer review should be summarized in an engagement letter, a copy of which should be signed and returned to the AICPA prior to the start of the review.
3. Accommodations for the review team should be coordinated with the team captain.
4. The firm is expected to have implemented its quality control policies and procedures for its accounting and auditing practice for the period under review (Standards pp. 2-12 to 2-13). The firm should determine that this responsibility has been met.
5. The review team should be provided with specific background information about your firm (Standards pp. 2-14 and 2-15). The firm should determine that this background information is available, appropriately summarized, and communicated to the review team.
6. Prior to the arrival of the review team, you should complete the Quality Control Policies and Procedures and Membership Requirements Questionnaire (Section 1 of the Peer Review Program Guidelines included elsewhere in this loose-leaf Manual).

7. The team captain will arrange for the scheduling of interviews with selected members of the firm's professional staff. You should see that this schedule is communicated to the appropriate individuals and that they understand the importance and purpose of these interviews.
8. The team captain will select certain engagements for review (Standards pp. 2-18 to 2-20) and ask your firm to prepare a profile sheet on each engagement selected. You should see that the profile sheets are appropriately completed and that the working papers and reports for those engagements are assembled and readily accessible to the review team.
9. A partner, manager, or senior staff member should be designated as a liaison to provide administrative assistance to the review team and should be available throughout the review.
10. The firm should have prepared an inspection report (which should be made available to the review team) indicating that the system has been tested, that it has been in place for the required length of time, and that it has been properly documented. The report should also summarize the inspection team's findings and, if necessary, planned corrective actions. These findings should be communicated to all partners, and responsibility should be assigned to determine that planned corrective actions were taken.
11. Have your latest independence confirmations available for review.
12. Have documentation of all independence problems and their final resolution available for review.
13. Have all documentation regarding the independence of any correspondent firms used during the year available for review.
14. Have personnel files available for review.
15. Have available for review appropriate CPE records for all professional staff members for the three most recent educational years. (See pp. 6-9 and 6-10 in the PCPS Peer Review Manual.)
16. Prepare a complete list of the firm's professional staff members showing name, position and length of service with the firm.
17. Have available for review documentation verifying that each proprietor, shareholder, or partner eligible for membership is a member of the AICPA.
18. Have available for review copies of the firm's latest annual membership report and the three most recent annual education reports filed with PCPS.
19. Provide a comfortable, adequate working area for the review team.
20. If possible, send copies of relevant manuals, checklists, partners' resumes as well as background information to the team captain.

## **II. During the Review**

1. The designated liaison partner or staff member should meet with the reviewers at the beginning of the review to orient them to firm policies and procedures, introduce them to appropriate firm personnel, and provide them with a tour of the office.
2. During the course of the review, the review team may find it necessary to discuss matters with appropriate firm personnel (aside from I.7). Firm personnel should be advised to make themselves available to the review team as necessary during the course of the review.

Usually such interviews will not disrupt the firm's operations.

3. The review team will usually discuss its findings as the review progresses.
4. The team captain will ask your firm to respond to "Matter for Further Consideration" forms prepared during the course of the review. The firm should carefully review the matters discussed on the forms and should provide a thorough written response to avoid any misunderstandings regarding the facts or the firm's position.

## **III. Completion of the Review**

1. Upon completion of the peer review, the review team will communicate its findings through one or more exit conferences. These exit conferences should be attended by appropriate firm personnel as determined by the firm. It is normally expected that the managing partner and the partners having firm-wide responsibility for quality control and accounting and auditing will attend this meeting.
2. The firm will receive a report on the peer review and may receive a letter of comments and/or a letter of suggestions.
  - a. A peer review report contains a statement of the scope of the review, a description of the general characteristics of a system of quality control, and the review team's opinion on the reviewed firm's quality control system for its accounting and auditing practice and its compliance with PCPS membership requirements.

Note - If the firm does not have an auditing practice, the report will so state.

- b. A letter of comments will be issued if the peer review report is modified or if the team captain believes there are matters that resulted in conditions being created in which there was more than a remote possibility that the firm would not

conform with professional standards on accounting and auditing engagements. These matters may relate to the design of your quality control policies and procedures, or to compliance with such policies and procedures or with the PCPS membership requirements (Standards pp. 2-28 to 2-31).

- c. A letter of suggestions is a written communication solely between the team captain and the reviewed firm. The letter will address matters that are not so serious or material as to result in a modified report or to be in a letter of comments, but that will enhance the firm's practice. The letter of suggestions will not be part of the committee's files.
3. Upon receipt of the written peer review report and letter of comments, the reviewed firm is required to respond in writing to the team captain's comments on matters in the letter of comments. The response should be addressed to the Peer Review Committee and should individually describe the action(s) taken or planned with respect to each matter contained in the letter. If the firm disagrees with one or more comments, it should describe the reasons for such disagreement.
4. The firm must submit a copy of the peer review report, the letter of comments and the firm's letter of response within 30 days to the PCPS Peer Review Committee, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775. (Note - The report received by the firm is not official until it has been accepted by the Peer Review Committee. Therefore, it would not be prudent to have the report printed or published or to make any other references to it in a public manner until that time.)
5. After it has been accepted by the Peer Review Committee, the report, the letter of comments and the reviewed firm's response thereto, and the letter indicating that the committee has accepted the report will become part of the Division for CPA Firms' public files and will be retained until completion of the subsequent peer review.

## CHECKLIST FOR IMPLEMENTATION OF YOUR PEER REVIEW

The following checklist is intended to assist the firm in preparing for the review team's visit. The completion and availability of all items listed will help to insure a thorough review.

	INITIAL	DATE
1. Obtain the engagement letter.	_____	_____
2. Set the dates of your peer review and establish the 12-month period to be covered by the review with the team captain.	_____	_____
3. Arrange for hotel accommodations for the review team and communicate details to the team captain.	_____	_____
4. Submit the firm's background information to the team captain.	_____	_____
5. Forward the following to the team captain when available:		
a. A completed Quality Control Policies and Procedures and Membership Requirements Questionnaire. This questionnaire is included elsewhere in this loose-leaf Manual as Section 1 of the Peer Review Program Guidelines.	_____	_____
b. The firm's quality control document or a summary statement of the firm's quality control policies. (This is not required if the firm elects to have the completed questionnaire referred to in 5 a. above serve as the firm's quality control document or summary statement.)	_____	_____
c. All relevant manuals, checklists, partners' resumes, etc.	_____	_____
6. Prepare separate lists of your firm's audit, review, and compilation engagements. The lists should include the following for each engagement:		
a. Total number of auditing or accounting hours or the total fees.	_____	_____
b. Partner in charge.	_____	_____
c. Nature of business.	_____	_____
d. Period reported on.	_____	_____
On the list of audit engagements all SEC engagements and audits subject to the <u>Government Auditing Standards</u> should be highlighted.	_____	_____

INITIAL

DATE

7. Prepare a list of the firm's professional staff members showing name, position and length of service with the firm. Have documentation available to verify that each partner, shareholder, or proprietor eligible for AICPA membership is a member of the AICPA.
8. Prior to the review, the review team will ask to interview members of your firm. Arrange for the selected individuals to be available.
9. Have all personnel files available for review.
10. Have available all independence confirmations obtained during the year.
11. Have available all documentation regarding the independence of any correspondent firms used during the year.
12. Have available all documentation supporting resolution of any independence problems encountered during the year.
13. Have available appropriate CPE records for all professional staff for the three most recent educational years.
14. Have available the firm's latest inspection report that documents the scope of the review, the findings, and any recommendations for corrective action.
15. Have available the three most recent annual education reports and the latest annual membership report filed with the PCPS.
16. Have available invoices and cancelled checks supporting payment of annual dues to the section.

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**AICPA Division  
for CPA Firms**

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**PEER REVIEW PROGRAM  
GUIDELINES**



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**1211 Avenue of the Americas, New York, NY 10036-8775**

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**SECTION 1**

**AICPA DIVISION FOR CPA FIRMS**

**QUALITY CONTROL POLICIES AND PROCEDURES  
AND MEMBERSHIP REQUIREMENTS QUESTIONNAIRE**

**(See Pages i and ii of the "Instructions for  
Use of the Peer Review Program Guidelines")**

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**Firm**

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**Prepared By**

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**Date**

**AICPA DIVISION FOR CPA FIRMS**  
**Instructions for Use of the Peer Review Program Guidelines**

**GENERAL**

A peer review is an independent evaluation of whether, during the year under review

The reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA (as set forth in Statement on Quality Control Standards No. 1, paragraph 7).

The reviewed firm's quality control policies and procedures were being complied with in order to provide the firm with reasonable assurance of conforming with professional standards.

The reviewed firm was complying with the Section's membership requirements.

Peer reviews are to be conducted under the standards prescribed in the documents entitled "Standards for Performing and Reporting on Peer Reviews" (see PCPS or SECPS 6" x 9" manual, as appropriate). These documents provide guidance for selecting the offices and engagements to be reviewed, and include examples of peer review reports and a letter of comments. Review team members are expected to be thoroughly familiar with the appropriate Section's standards prior to commencing a review.

These Guidelines have been designed to facilitate evaluation of the reviewed firm's system of quality control, testing its compliance therewith, and testing compliance with the membership requirements of the applicable Section. Although departures from these guidelines may occur in particular situations, with the approval of the review team captain, reviewers should provide adequate documentation of the type contemplated in these Guidelines.

**QUALITY CONTROL POLICIES AND PROCEDURES AND MEMBERSHIP REQUIREMENTS QUESTIONNAIRE**

In advance of the review, the review team captain should request that the reviewed firm complete the quality control policies and procedures questionnaire included in Section 1 and return it to the review team captain prior to the review team's visit. Completion of the questionnaire assists the firm in accumulating and organizing the information regarding its quality control system and the section's membership requirements and expedites the work of the reviewers. Because the extent of documentation of quality control policies and procedures may vary from firm to firm, all firms should complete the questionnaire. <sup>1/</sup>

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<sup>1/</sup> To assist it in evaluating whether it is ready for its initial peer review and in determining whether its quality control policies and procedures should be revised, a firm would be wise to complete Section 1 shortly before joining the Section.

In completing the questionnaire, the reviewed firm should use the response column or attach other sheets as necessary. Lengthy and elaborate answers are not expected. Rather, wherever practicable, the reviewed firm should provide references to policies and procedures in the firm's quality control document, staff manuals or other reference materials, which adequately convey the response to the particular question. Such references will assist reviewers in finding the indicated policy or procedure in the reviewed firm's materials. In addition to responding to the questions, the reviewed firm should indicate any significant changes made in its quality control policies and procedures during the period or since the last peer review.

### **SUGGESTED REVIEW PROCEDURES**

To assist the review team in performing its work, suggested review procedures have been organized in two sections (Sections 2 and 3 of these Guidelines) as hereinafter discussed. The review team captain is responsible for the assignment of the various quality control elements for review to individual team members. Prior to performing the procedures suggested for the element assigned, the review team member should compare the relevant sections of the firm's quality control policies and procedures with its responses to the quality control policies and procedures questionnaire and determine, to the extent applicable, the reasons for any significant differences between them. The extent of the review team's testing and the nature of its findings should be documented on appropriate pages of the Guidelines and supplemented as necessary with additional pages.

The team member(s) responsible for engagement reviews should, in particular, be familiar with the reviewed firm's policies and procedures for supervision and for consultation. If the AICPA engagement checklists are used, the questions should be augmented to include the reviewed firm's specific quality control policies and procedures applicable to engagements.

The scope and adequacy of the reviewed firm's inspection program may affect the scope of the review. Therefore, the review of the firm's inspection program should be completed as soon as possible to determine whether the initial anticipated scope requires modification.

Peer Review Procedures. Suggested procedures for evaluating the appropriateness of the reviewed firm's quality control policies and procedures and for testing the firm's compliance therewith and with the applicable Section's membership requirements have been included in Section 2. The suggested procedures should be modified by the reviewer as the circumstances may require. For example due to the size and nature of a firm's practice, a reviewer may decide to limit his review in such areas as assignment of personnel, consultation, hiring, advancement, or acceptance and continuance of clients to testing during engagement reviews. In such circumstances, the reviewer should document the reasons why he believes that his review can be limited in this manner. On all reviews, however, a reviewer must review in depth the functional areas of independence, supervision, professional development, and inspection.

Some of the suggested peer review procedures include interviewing personnel of the reviewed firm who are knowledgeable about particular quality control functions or have responsibility for a function (e.g., assigning personnel to engagements, making hiring decisions, resolving independence questions). The objectives of these interviews include (1) corroborating the information provided to the reviewer in the firm's documented policies and procedures and in the questionnaire completed by the reviewed firm; (2) determining whether the firm's policies and procedures have been effectively communicated to the individual responsible for the particular quality control function; (3) determining as to whether the individual believes that he has sufficient authority to perform the assigned duties; and (4) obtaining additional information that may be deemed necessary.

**Staff Interview Questionnaire.** Certain of the suggested review procedures also call for interviewing selected staff other than those responsible for a particular quality control function. The objective of these interviews is to provide corroborative evidence that certain policies and procedures have been properly communicated. In evaluating the answers to the questions, the interviewer should carefully consider the interviewee's background, level of experience and position in the reviewed firm. The interviews are not necessarily determinative in regards to the nature of the report or the matters to be included in the letter of comments. Responses should be compared to other review findings.

The individuals selected should have varying levels of experience and backgrounds. The number of individuals selected will be affected by the size and nature of the reviewed firm's practice.

Generally, the review team should select one individual at each level of responsibility below partner (e.g., manager, supervisor, senior and staff accountant) in each office visited. If a firm does not designate levels of responsibility, the review team should select a cross section of the professional staff in each office visited based on other criteria, such as years of experience and responsibilities. A suggested questionnaire for such interviews is included in Section 3. To minimize disruptions to the reviewed firm's normal operations, all questions relative to the quality control system should be discussed, to the extent possible, at the same time with each of the individual(s) selected for interview. (The interviewer should not indicate the name of the individual(s) interviewed on the questionnaire.)

### **MATTERS FOR FURTHER CONSIDERATION**

Exhibit A contains a sample form captioned "Matters for Further Consideration" (MFC). Reviewers should exercise professional judgment in determining whether a "no" answer is significant enough to warrant the preparation of an MFC form. The purpose of the form is to communicate to the reviewed firm:

1. A matter that, in the reviewer's opinion, could represent a significant design deficiency in the reviewed firm's quality control policies and procedures, or significant noncompliance therewith, or with a membership requirement, and that might affect the report or letter of comments of the review team.
2. Other matters that, in the reviewer's opinion, should be communicated to the reviewed firm as matters that may require corrective action, and/or recommendations for improvement in the design of the quality control system.

Completion of the form requires a description of the matter, the reviewed firm's comments thereon, and information on the resolution of the matter. The form should be signed in the places indicated by the reviewer, the review team captain, and an appropriate partner in the reviewed firm. The review team captain should evaluate the substance of the matters described and their resolution and, after reviewing all such forms, should decide if, individually or collectively, they should affect the report of the review team or should be included in a letter of comments to the reviewed firm. (The review captain should be consulted when there are disagreements or differences in opinion between the reviewed firm and the review team members with respect to the interpretation of such matters.)

The reviewer should also identify matters that, in his opinion, do not require corrective action, but that should be communicated to the reviewed firm as suggestions for improvements in the firm's quality control policies and procedures or compliance therewith. These suggestions should be summarized by the review captain, in whatever manner is most convenient, for communication to the appropriate partner(s) of the reviewed firm.

### **SUMMARIZATION OF PEER REVIEW FINDINGS**

The "Standards for Performing and Reporting on Peer Reviews" requires that reviewers, at the conclusion of field work, summarize all of their findings, including all "no" answers to the individual engagement questions and MFCs. These summaries should be used to evaluate the nature, causes, pattern, pervasiveness, and significance of the deficiencies noted in (a) the design of the firm's quality control system, (b) compliance with the system or with professional standards, and (c) compliance with the membership requirements of the Section. The summaries should also assist the reviewers in answering the questions in Section 4 of these Guidelines and in preparing the summary review memorandum(s).

The following sample summaries have been developed and are included as exhibits to these Guidelines:

Summary Checklist for Reviews of Audit Engagements — (Exhibit B)

Summary Checklist for Reviews of Reviews of Financial Statements — (Exhibit C)

Summary Checklist for Reviews of Compilations of Financial Statement — (Exhibit D)

Summary of Matter for Further Consideration Forms — (Exhibit E)

Reviewers may use these materials, or they may develop their own, for summarizing the peer review findings. The format of the summary checklists is consistent with that of the engagement checklists contained elsewhere in this loose-leaf manual. Since the engagement checklists are developed for typical situations, they, as well as the summaries, should be augmented, as necessary, to include the reviewed firm's specific quality control policies and procedures applicable to engagements.

## **CONCLUSIONS**

Section 4 sets forth a series of questions designed to assist reviewers in reaching overall conclusions on each of the functional areas and on the membership requirements. The responses also assist reviewers in determining whether the appropriate peer review procedures have been performed, adequately documented, and properly summarized. The questions incorporate the objectives of peer reviews. Therefore, regardless of the modifications that are made to the other sections of these Guidelines, the "Conclusions" pages for each functional area and for the membership requirements should be used without modification.

If the finding on a particular matter caused you to conclude that (because of the nature, causes, pattern, or pervasiveness of the deficiencies) they should at least be considered for inclusion in the letter of comments, the applicable portion(s) of question 1 for the applicable functional area should be answered "no." In reaching this conclusion, reviewers should consider the reporting standards in Section 2 of the applicable Section's manual (see pages 2-24 through 2-31 of the PCPS and SECPS manuals.)

Exhibits F-1 through F-9 present matrices showing the relationship between the questions in Section 4 and the questions or procedures suggested in Sections 1 through 3 of these Guidelines and in the engagement checklists. Similarly, Exhibit F-10 presents the relationship between the Section's membership requirements and the procedures suggested in Section 2 and in the audit engagement checklist. Reviewers are not obligated to use these exhibits in responding to the questions in Section 4, but may find them useful when they are unclear about the intended relationships.

## **REVIEWS OF MULTI-OFFICE FIRMS**

When a reviewed firm has more than one office, the procedures followed by both the reviewed firm and by the reviewers will be similar, but not identical, to the procedures followed in the review of a single office. Accordingly, the materials contained in these Guidelines should be tailored as follows:

- In preparing the questionnaire in Section 1, the reviewed firm should be careful to explain any variations among offices' in policies and procedures, if they exist, and to identify locations where functions related to the entire firm are centralized.
- When visits are made to more than one office, the team captain should prepare a copy of the appropriate portions of Section 2 for each office visited. Obviously, certain items will be addressed at only one location, such as evaluating firm policy or interviewing the individual responsible for a firm-wide function. Other items will be addressed at more than one location, such as reviewing certain types of files or interviewing persons responsible for functions administered on a decentralized basis.
- Section 3 ordinarily should be used in each office visited.
- Summaries of "no" answers and of MFCs ordinarily should be prepared so that findings at individual locations, as well as firm-wide totals, are readily identifiable.
- Section 4 should be based on the firm-wide findings and is not expected to be prepared for each office.



**SECTION 1**  
**AICPA DIVISION FOR CPA FIRMS**  
**QUALITY CONTROL POLICIES AND PROCEDURES QUESTIONNAIRE**

**Note:** This questionnaire is intended to provide the reviewer with basic information about the firm's quality controls. It is not necessarily a checklist of all the policies and procedures that might be applicable to the firm's practice. Careful completion of this questionnaire should be helpful to firms in evaluating the continuing appropriateness of their policies and procedures. Firms should describe briefly the policies in effect and, to the extent possible, make reference to other firm documents, such as the firm's quality control document, personnel manual, audit manual, checklists, or forms where the policies are described in more detail. (See also pages i and ii of the "Instructions for Use of the Peer Review Program Guidelines" for instructions on preparing this questionnaire.)

**Response, Including Reference  
to Firm Documents**

**A. INDEPENDENCE**

1. Does the firm require that all professional personnel adhere to the applicable independence rules, regulations, interpretations, and rulings of the AICPA, state CPA society, state board of accountancy, state statute, and SEC and other regulatory agencies?
2. How does the firm inform personnel (for example, through its quality control document, personnel manual, memoranda, client lists, training meetings) of the applicable independence requirements and of the following:
  - a) Investments that are not to be held?
  - b) Relationships that should not exist?
  - c) Transactions that are prohibited by firm policy?

In responding, also indicate how and when personnel are informed of new clients to which the independence policies apply.

3. Does the firm obtain periodic written independence representations from all professional personnel? If not, how does the firm monitor compliance with its independence policies and procedures?
4. If written independence representations are obtained:
  - a) Who is responsible for assuring that these representations have been obtained from all required personnel and for reviewing them?

- b) How often are the representations obtained?
  - c) Where are they filed?
  - d) Do these representations affirm that:
    - i. The individual is familiar with the firm's independence policies and procedures?
    - ii. Prohibited investments are not held and were not held during the period?
    - iii. Prohibited relationships do not exist and that transactions prohibited by firm policy have not occurred?
5. Who is responsible for resolving questions on independence matters?
- a) In what circumstances must the resolution of independence questions be documented? Where is the documentation maintained?
  - b) What sources are or would be consulted when resolving independence questions?
  - c) Has the firm found it necessary within the last year to consult with sources outside the firm on independence matters?
6. Does the firm confirm, when acting as principal auditor, the independence of another firm engaged to perform segments of an engagement?
- a) Does the firm provide its staff with a standard independence representation form to use as a guide? If so, indicate where (for example, in an audit manual) the form and related instructions are found.
  - b) Does the firm obtain similar representations in review engagements under SSARS 1?

7. Who reviews accounts receivable from clients to ascertain whether any outstanding amounts take on some of the characteristics of loans and may, therefore, impair the firm's independence?
  - a) How often is this done?
  - b) Have there been any such situations during the year under review?

**B. ASSIGNING PERSONNEL TO ENGAGEMENTS**

1. Are staffing schedules and/or time budgets used?
  - a) If yes, who is responsible for preparing and approving them?
  - b) If no, how are manpower requirements identified?
2. Who is responsible for assigning personnel to engagements?
3. Does the person with the final responsibility for the engagement approve its scheduling and staffing? Is this approval documented and, if so, where?
4. How are staff advised of their assignments and changes in them (for example, by copies of staffing schedules, memoranda, or discussion)?
5. Does the firm require the following to have experience appropriate to the engagement:
  - a) Staff?
  - b) Partner-in-charge of the engagement?
  - c) Concurring reviewers?

**C. CONSULTATION**

1. Have certain areas or specialized situations been identified as requiring consultation? If yes, attach a list of such areas and situations or briefly describe them and indicate where this list will be found (for example, in the quality control document).
2. Does the firm designate individuals as having specialized experience and expertise in certain technical areas and being available for consultation? If yes, attach a list of the individuals designated and what their specialties are and indicate how personnel have been made aware of this information.
3. How are differences of opinion between engagement personnel and specialists resolved?
4. What outside sources are consulted when it is deemed necessary (for example, AICPA, state CPA society, another firm or individual)?
5. Does the firm require that consultations be documented? If yes:
  - a) To what extent must they be documented?
  - b) Where is this documentation maintained (for example, in the working papers and/or a subject file)?
6. Has the firm issued guidance to its professional personnel regarding reports on the application of accounting principles as described in SAS 50? If yes, attach a copy of that guidance. Also, indicate whether the firm issued any such reports during the year under review or since the issuance of the statement.

7. Who is responsible for determining that the firm's reference library or libraries remain adequate and current?
8. Does the firm's library include current editions of AICPA industry audit guides relevant to the firm's practice and are those guides required to be followed?

**D. SUPERVISION**

1. Does the firm have documented procedures for planning audit and accounting engagements and, if so, where are those procedures found (for example, in an audit manual). If not, briefly describe the planning procedures followed in practice, including the information considered and the nature, extent and timing of partner involvement, and indicate any variations in those procedures based on factors such as estimated time requirements or the nature of the engagement.
2. Is a written audit program used on all audit engagements as required by SAS 22? Who is required to review and approve the audit program, and how is this approval documented?
3. Does the firm have written guidance material regarding:
  - a) Evaluation of internal accounting controls, including computer controls?
  - b) Correlation of internal accounting controls to substantive procedures.
  - c) Audit risk and materiality considerations?
  - d) Audit sampling techniques?
  - e) Degree of reliance to be placed on analytical review procedures?
  - f) Form and content of working papers?
  - g) Other pertinent matters (e.g., manuals).
4. If the answer to any of the questions under 3 above is yes:
  - a) Indicate where the material is found.
  - b) Describe the documentation required to be included in engagement working papers.

5. Does the firm require the use of any standardized forms, checklists, and questionnaires? (Attach a list or indicate where those materials are found and indicate which forms are required and which are discretionary.)
6. How are differences of professional judgment between engagement personnel resolved and how are staff informed of the procedures to be followed?
7. Does the firm use other offices or correspondents, including those outside the United States, for engagements? If yes, does the firm have documented procedures for the supervision and control of that work? (Indicate where those procedures are found.) If not, briefly describe how instructions are given to the other office or correspondent, and the extent to which the work of that office or correspondent is reviewed by the referring office<sup>2/</sup>.
8. Does the firm have documented procedures for the review of reports, financial statements, and working papers for audit, review, and compilation engagements by the personnel assigned to the engagement? If yes, indicate where those procedures are found. If no, briefly describe the procedures expected to be followed and indicate how the review process is documented.
9. Does the firm require that an individual having no other significant responsibility for the engagement review the following prior to issuance:
  - a) Accountants'/Auditors' report and accompanying financial statements?
  - b) Working papers?

If the answer is yes to either of these questions, indicate who performs these reviews and how they are documented, the extent of the review and whether the procedures are applicable to all engagements or specific types of engagements.

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<sup>2/</sup>See Appendix C of Section 2 of the SECPS Manual.

10. How does the firm evaluate the quality of a potential merger candidate?
11. How does the firm train and integrate the professional personnel of a merged-in practice in the reviewed firm's quality control policies and procedures?

**E. HIRING**

1. Who is responsible for determining the firm's needs for professional personnel, for deciding on and carrying out a program to meet those needs, and for monitoring the effectiveness of the program?
2. What personal, education, and experience requirements have been established for:
  - a) Entry level personnel?
  - b) Experienced personnel?
3. What types of background information are required to be obtained regarding the qualifications of potential hirees (for example, resumes, transcripts, application forms, interviews, references)?
4. Who is responsible for hiring decisions?
5. Does the firm provide an orientation program, relating to the firm and the profession, for newly employed personnel? If yes, attach a copy of the program outline.

**F. PROFESSIONAL DEVELOPMENT**

1. Who is responsible for the professional development function?
2. Briefly describe, or make reference to other documents that describe how the firm's professional development program is implemented. For example, describe how training needs are identified, the nature of the training provided (e.g. in-house), the source of the material (outside providers, developed in-house), the review procedures followed for in-house courses, and the evaluation procedures employed. (In that connection, consider the guidance in Sections 6 and 8 of the 6"x9" PCPS and SECPS manuals, respectively, relative to the CPE requirement.)
3. Where are the professional development records maintained, including attendance records, course materials, etc.?
4. Who is responsible for monitoring compliance with the Section's and other applicable (e.g., state) CPE requirements?
5. How are professional personnel made aware of changes in accounting and auditing standards and in the firm's technical policies and procedures (for example, by distributing technical pronouncements, and holding training courses on recent changes and areas identified by the inspection program)?



**G. ADVANCEMENT**

1. What levels of responsibility exist within the firm (for example, partner, manager, supervisor, senior)?
2. Have descriptions been prepared of the responsibilities at each level, expected performance, and the qualifications necessary for advancement to the level? If yes, attach a copy of each description or indicate where (for example, in a personnel manual) this information can be found.
3. Does the firm periodically evaluate the performance of personnel and advise them of their progress in the firm?
  - a) When and how often are these evaluations performed?
  - b) Are these evaluations documented? If yes, indicate where this documentation is maintained (for example, in the individual's personnel file).
  - c) Is a standard evaluation form used?
  - d) By what means are partners evaluated (for example, counseling, peer evaluation, or self appraisal)?
4. Who is responsible for:
  - a) Making advancement and termination decisions?
  - b) Monitoring the system of personnel evaluations and counseling?

**H. ACCEPTANCE AND CONTINUANCE  
OF CLIENTS**

1. Does the firm use a standardized questionnaire for accumulating information regarding prospective clients? If yes, attach a copy. If no, describe how prospective clients are evaluated (for example, reviewing available financial information, inquiry of third parties, communicating with predecessor auditor, evaluating firm's independence and ability to serve the prospective client, etc.).
2. Who is responsible for evaluating the information obtained regarding prospective clients and for making acceptance decisions?
3. Are acceptance decisions documented (for example, on a questionnaire, in minutes of partners' meetings)?
4. Under what circumstances (e.g., expiration of a specified time period or the occurrence of a specific event -- indicate the period and the types of events) are existing clients evaluated to determine whether the relationship should be continued? Who makes the final decision?
5. Are continuance decisions documented? If yes, in what form? If the firm uses a standardized questionnaire, attach a copy.
6. Who is responsible for monitoring the firm's compliance with its policies and procedures regarding acceptance and continuance of clients?

**I. INSPECTION**

1. Who is responsible for the inspection function?
2. Have instructions been prepared concerning the performance of inspection activities, including the scope and content of those activities and the necessary qualifications of the inspectors? If yes, indicate where they can be found?
3. Does the firm use any of the following materials during the inspection:
  - a) Inspection work programs?
  - b) Questionnaires?
  - c) Engagement and/or other checklists?
  - d) Other (identify)?
4. Does the firm retain evidence of the inspection procedures performed and the conclusions reached? If yes, describe materials retained and indicate periods covered.
5. Have inspection findings been acted upon? If yes, briefly describe the corrective actions identified and taken.

**J. MEMBERSHIP REQUIREMENTS (SECPS ONLY)**

1. How does the firm ensure that it is complying with the section's membership requirements pertaining to —
  - a) Partner rotation on SEC engagements [membership requirement IV.3 (e)]?
  - b) Concurring partner review of SEC engagements [membership requirement IV.3(f)]?
  - c) Refraining from proscribed management advisory services [membership requirement IV.3(i)]?
  - d) Communicating at least annually with the audit committee or board of directors of each SEC audit client regarding the matters discussed in membership requirement IV.3(p), if they come to the auditor's attention, and documenting such communication in the working papers?<sup>3/</sup>

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<sup>3/</sup>Early application of SAS No. 61 "Communications With Audit Committees," along with communication of the total fees received from an SEC client for MAS and a description of the types of such services rendered, will be deemed to be in compliance with this membership requirement. Effective for audits of periods beginning on or after January 1, 1989, membership requirement IV.3(p) is rescinded and membership requirement IV.3(j) is reinstated.

- e) Communicating the firm's statement of philosophy [membership requirement IV.3(o)]?
- f) Communicating in writing on a timely basis to an SEC registrant and the Office of the Chief Accountant of the SEC that the client auditor relationship has ceased [membership requirement IV.3(q)]?4/

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4/ Effective May 1, 1989.

**SECTION 2**

**AICPA DIVISION FOR CPA FIRMS**

**Suggested Peer Review Program Procedures**

**(See Page ii of the "Instructions for  
Use of the Peer Review Program Guidelines")**

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**Reviewed Firm**

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**Period Covered**

**SECTION 2**  
**AICPA DIVISION FOR CPA FIRMS**  
**Peer Review Program Guidelines**

(See Page ii of the "Instructions for  
Use of the Peer Review Program Guidelines")

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p><b>A. <u>INDEPENDENCE</u></b></p> <p>1. Compare the firm's independence policies and procedures with professional and regulatory requirements.</p> <p>2. Interview the individual responsible for resolving independence questions and discuss the following questions:</p> <p>a) Have any significant independence questions been raised during the year? Describe the nature and disposition of the question.</p> <p>b) How frequently is the staff informed of changes in the entities to which the firm's independence rules apply?</p> <p>c) How do you monitor changes in independence requirements and compliance with the firm's policies?</p> <p>d) Do you believe that you have sufficient authority within the firm to fulfill your responsibilities?</p>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>3. Determine by review of appropriate documentation and/or by interviews with selected staff that the firm has communicated, on a timely basis, those entities to which the independence rules apply.</p> <p>4. Select ____ employees and review the written independence representations obtained from those employees during the most current year.</p> <p>5. Identify, by review of files or inquiry (see 2 above), a selection of situations in which independence questions arose and consider whether the resolution of such questions appears appropriate.</p> <p>6. If sufficient testing is not performed as part of the engagement reviews, determine, on a test basis, by inspection of records and selected letters that the firm has obtained timely and appropriate assurance of independence from other firms engaged to perform segments of engagements for which it is the principal auditor.</p> <p>7. Interview ____ staff to confirm their familiarity with the firm's independence policies and procedures. (See separate interview guidelines.)</p>		



Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p><b>B. <u>ASSIGNING PERSONNEL TO ENGAGEMENTS</u></b></p> <p>1. Interview the individual responsible for assignments and discuss the following questions:</p> <p>a) What criteria/factors are used in making partner and staff assignments?</p> <p>b) How are you notified of advancement, hiring, and termination decisions?</p> <p>c) How far in advance are staffing requirements for engagements determined?</p> <p>d) How far in advance are individuals notified of their particular work assignments?</p> <p>e) Do you believe that you have the appropriate authority for making assignments?</p> <p>2. Review and evaluate the firm's procedures for assigning:</p> <p>a) Staff.</p> <p>b) Partners-in-charge of engagements.</p> <p>c) Concurring reviewers.</p>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>3. Review the firm's staff scheduling records.</p> <p>a) Determine if appropriate consideration was given to the factors (e.g. competence, experience) identified by the firm as deserving consideration in staffing engagements.</p> <p>b) Evaluate whether the factors considered are appropriate.</p> <p>4. Interview ____ staff to determine whether they believe ____ that the assignments they have received have been appropriate. (See separate interview guidelines.)</p>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p><b>C. <u>CONSULTATION</u></b></p> <ol style="list-style-type: none"> <li>1. Evaluate the appropriateness of the method and extent of designating specialists, the degree of authority to be accorded specialists' opinions, and the procedures followed for resolving differences of opinion between engagement personnel and specialists.</li>   <li>2. Evaluate the extent of required consultation and whether such situations are comprehensive enough for the firm.</li>   <li>3. Identify, by review of subject files or by inquiry, situations in which consultation has taken place and evaluate whether the advice appears appropriate and correctly applied.</li>   <li>4. Evaluate the appropriateness of any guidance issued regarding reports on the application of accounting principles, as described in SAS 50.</li> </ol>		

5. Review the documentation prepared in connection with the issuance of \_\_\_\_\_ reports on the application of accounting principles, as described in SAS 50, and evaluate whether:
  - a) The firm complied with its requirements and with professional standards.
  - b) There is reason to believe that the opinion rendered is not appropriate in the circumstances.
6. Inspect the firm's library and determine if it is sufficiently comprehensive and up-to-date. Specifically, determine that the library includes: recent pronouncements, literature appropriate for the firm's specialties, and timely filing of loose-leaf services.
7. Interview \_\_\_\_\_ personnel to confirm their awareness of the firm's consultation policies and procedures and discuss how they follow those policies and procedures in practice. (See separate interview guidelines.)

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p><b>D. <u>SUPERVISION</u></b></p> <ol style="list-style-type: none"> <li>1. Evaluate whether the position of the person(s) responsible for planning engagements is commensurate with the assigned responsibility.</li> <li>2. Consider whether all appropriate matters are required to be included in the engagement planning process.</li> <li>3. Review and evaluate the appropriateness of the guidance material provided by the firm regarding:               <ol style="list-style-type: none"> <li>a) Evaluation of internal accounting controls, including computer controls.</li> <li>b) Correlation of internal accounting controls to substantive procedures.</li> <li>c) Audit risk and materiality considerations.</li> <li>d) Audit sampling techniques.</li> <li>e) Degree of reliance to be placed on analytical review procedures.</li> <li>g) Other pertinent matters (e.g. Manuals).</li> </ol> </li> </ol>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>4. Review and evaluate the appropriateness of any standardized forms, checklists, and questionnaires.</p> <p>5. If the firm uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, or questionnaires) purchased from another accounting firm or some other third party:</p> <p>a) Obtain and review the most recent report on the review of the suitability of the design of those materials, if any.</p> <p>i) If there is such a report, determine whether the firm has tailored the materials, to the extent appropriate, to provide the firm with reliable aids to assist it in conforming with professional standards.</p> <p>ii) If there is no such report, evaluate whether the materials are appropriately comprehensive and suitably designed and whether the firm has tailored the materials, to the extent appropriate, to provide the reviewed firm with reliable aids to assist it in conforming with professional standards.</p> <p>b) Evaluate the appropriateness of the procedures performed by the firm to ensure that the materials are up-to-date and cover all applicable recent pronouncements.</p>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>6. Review and evaluate the appropriateness of the firm's policies and procedures for the review of engagement working papers, reports, and financial statements. [See also page 2-19, step J(7).]</p>		
<p>7. Review and evaluate the appropriateness of the firm's procedures for resolving differences of opinion among members of an engagement team.</p>		
<p>8. Review and evaluate the firm's policies and procedures for:</p>		
<p>a) Evaluating the quality of a potential merger candidate.</p>		
<p>b) Training and integrating the professional personnel of the merged-in practice in the reviewed firm's quality control policies and procedures.</p>		
<p>9. Review the firm's other supervision policies and procedures, including the policies and procedures for the supervision and control of work performed by other offices, correspondents, or affiliates, and evaluate their suitability for the firm.</p>		
<p>10. Interview ____ personnel to confirm their awareness of the firm's supervision policies and procedures. (See separate interview guidelines.)</p>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p><b>E. <u>HIRING</u></b></p> <p>1. Interview the individual responsible for making hiring decisions and discuss the following questions:</p> <p>a) How does the firm plan for its personnel needs and does the hiring program satisfy those needs?</p> <p>b) How are potential hirees identified and informed about the firm?</p> <p>c) What attributes, achievements, and experience do you seek in:</p> <p>i. Entry-level personnel?</p> <p>ii. Experienced personnel?</p> <p>d) What background information is obtained?</p> <p>e) How are persons involved in the hiring process informed about the firm's personnel needs and objectives?</p> <p>f) How do you monitor the effectiveness of the recruiting program?</p> <p>g) Do you believe that you have sufficient authority within the firm for making hiring decisions?</p>		



Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<ol style="list-style-type: none"> <li>2. Review or discuss the firm's hiring plans, including its hiring objectives, and evaluate the appropriateness of the hiring plans.</li> <li>3. Evaluate the appropriateness of:               <ol style="list-style-type: none"> <li>a) The attributes sought in hirees.</li> <li>b) The achievements and experiences sought in hirees.</li> <li>c) The background information required by firm policy on potential hirees.</li> </ol> </li> <li>4. Select ____ new hirees, including those joining the firm through mergers or at supervisory levels, and obtain each individual's personnel files.               <ol style="list-style-type: none"> <li>a) Determine whether the background information and other documentation required by firm policy was obtained.</li> <li>b) Review the documentation contained therein and evaluate whether the individual possesses the desired attributes, achievements, and experience. If not, ascertain from other documentation or from inquiry why an exception was made.</li> <li>c) Interview ____ of these new hirees. (See separate interview guidelines.)</li> </ol> </li> <li>5. Review and evaluate the method(s) by which new personnel are notified of the policies and procedures relevant to them.</li> <li>6. Interview ____ staff involved in the recruiting process to confirm their awareness of the firm's hiring objectives. (See separate interview guidelines.)</li> </ol>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p><b>F. <u>PROFESSIONAL DEVELOPMENT</u></b></p> <p>1. Interview the individual responsible for the professional development function and discuss the following questions:</p> <ul style="list-style-type: none"> <li>a) How does the firm ensure that it is complying with the section's CPE membership requirement and what aspects, if any, is it having difficulty complying with?</li> <li>b) How frequently are the professional development records reviewed to ensure that the firm's personnel comply with: <ul style="list-style-type: none"> <li>i. The firm's requirements?</li> <li>ii. The section's requirements?</li> <li>iii. The state board of accountancy's requirements?</li> </ul> </li> <li>c) What factors are considered when enrolling professional personnel in training programs (e.g. areas of weakness noted in the individual's performance in the person's areas of responsibility or specialty)? <ul style="list-style-type: none"> <li>i. How far in advance are professional personnel notified of the courses they are to attend?</li> <li>ii. Do professional personnel have any input in deciding which courses they attend?</li> </ul> </li> <li>d) Do you believe that you have sufficient authority to ensure that all professional personnel receive appropriate training during the year?</li> </ul>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>2. If the firm presents in-house training programs, select ____ of these programs. Examine the materials and information on the course developer and instructors and determine whether:</p> <p>a) The developer is qualified.</p> <p>b) The course is technically accurate, current, and contributes to the professional competence of the staff.</p> <p>c) The course instructor is qualified.</p> <p>d) The participants and instructor evaluate the course, and appropriate action is taken when the evaluations are not favorable.</p> <p>3. Review the firm's records of participation by personnel in CPE and verify that:</p> <p>a) The records are suitably comprehensive.</p> <p>b) The firm and its personnel have complied with the firm's CPE requirements.</p> <p>c) The firm has complied with the Section's membership requirements [see also Step (J5)].</p> <p>4. Determine by inquiry or review of other documentation whether professional literature relating to current developments in professional standards and other related materials are distributed on a timely basis.</p> <p>5. Interview ____ staff to determine their professional ____ development activities, to evaluate the firm's CPE function, and to evaluate their on-the-job training experience. (See separate interview guidelines.)</p>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p><b>G. <u>ADVANCEMENT</u></b></p> <ol style="list-style-type: none"> <li>1. Interview the individual(s) responsible for making advancement and termination decisions and discuss the following questions:               <ol style="list-style-type: none"> <li>a) What are the firm's advancement and termination policies and procedures?</li> <li>b) How do you monitor the firm's compliance with its policies and procedures?</li> <li>c) Do you believe that you have the appropriate authority for making advancement and termination decisions?</li> </ol> </li> <li>2. Review job descriptions and advancement criteria and evaluate whether they are reasonable for the firm.</li> <li>3. Review ____ personnel files, personnel evaluations, or other documentary evidence to determine whether staff members are reviewed, evaluated, and promoted in accordance with firm policy.</li> <li>4. Evaluate the effectiveness of the method by which partners are evaluated to determine if they fulfill the responsibilities assigned to them. (<u>Consider interviewing selected partners to assist in evaluating the effectiveness of this method.</u>)</li> <li>5. Interview ____ staff to determine their awareness <u>of</u> the firm's advancement policies and procedures and whether they are followed. (See separate interview guidelines.)</li> </ol>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p><b>H. <u>ACCEPTANCE AND CONTINUANCE OF CLIENTS</u></b></p> <p>1. Interview the person responsible for making decisions regarding the acceptance of clients and discuss the following questions:</p> <p>a) What criteria are considered by the firm in the acceptance of clients and how were these applied during the year?</p> <p>b) Do you believe that you have sufficient authority for making acceptance decisions?</p> <p>2. Interview the person responsible for making decisions regarding the continuance of clients and discuss the following questions:</p> <p>a) What specific circumstances require the evaluation of an existing client to determine whether the relationship should be continued and were evaluations performed during the year when these circumstances were encountered?</p> <p>b) Do you believe that you have sufficient authority for making continuance decisions?</p>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>3. Evaluate the appropriateness of the firm's policies and procedures for the acceptance and continuance of clients. Consider:</p> <ul style="list-style-type: none"> <li>a) The applicability of professional standards (e.g., communications with and regulations).</li> <li>b) The appropriateness of the criteria considered in the acceptance of new clients, the types of engagements that the firm would not accept or that would be accepted only under certain conditions, and whether other types of engagements should be added.</li> <li>c) The appropriateness of the circumstances in which the reevaluation of an existing client is required.</li> </ul> <p>4. Review the methods of notifying the appropriate personnel of the firm's policies and procedures for the acceptance and continuance of clients. Evaluate whether the people being informed are the ones who need to have knowledge of the policies and procedures.</p> <p>5. Review the documentation of _____ clients considered for acceptance during the year and evaluate whether the firm is conforming with its requirements and with professional standards, including communications with predecessor auditors/accountants.</p> <p>6. Review _____ files or other evidence (such as minutes) documenting client continuance and evaluate whether the firm is conforming with its requirements and with professional standards.</p>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>7. For SECPS member firms, obtain a list from the firm of those SEC clients accepted since the end of the last peer review year (or for the year under review if the reviewed firm has not previously undergone a peer review) where, as reported in a Form 8-K, in a similar public filing, such as a document filed with the Office of the Comptroller of the Currency, the Federal Reserve Board, or the Federal Deposit Insurance Corporation, or in a document filed with the Federal Home Loan Bank Board that is available to the successor auditor, the former accountant resigned (or declined to stand for reelection) or there was a reported disagreement over any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, or there was a "reportable event" as defined in item 304(a)(1)(v) of SEC Regulation S-K. For such engagements:</p> <p>a) Review the existing client-acceptance documentation that relates to the matters or procedures that were the subject of the resignation or disagreement.</p> <p>b) Review such current or prior periods' engagement working papers, financial statements, or auditor's reports to the extent considered necessary to be able to evaluate whether the matters or procedures were handled appropriately.</p>		

**Suggested Review Procedures****Remarks and Findings  
Including Extent of Testing****Done By  
(Initials)**

- c) Determine whether, since the end of the last peer review year (or for the year under review if the reviewed firm has not previously undergone a peer review), any opinions on the application of generally accepted accounting principles were rendered to the entity prior to acceptance (for example, during the proposal process or before).
- d) If any such opinions were rendered, determine whether they were issued pursuant to the firm's policies relating to the issuance of such opinions.
8. For SECPS member firms, obtain a list from the firm of all new SEC engagements (1) for which there was a predecessor accountant or auditor, and (2) for which the reviewed firm's first report on accounting and auditing services related to period that ended during the reviewed firm's peer review year. Review the existing client-acceptance documentation for all engagements on this list in the offices selected for review.<sup>1/</sup>
9. Interview \_\_\_\_\_ personnel and confirm their awareness of the circumstances in which the reevaluation of a client would be required. (See separate interview guidelines.)

<sup>1/</sup>If there are any engagements in the offices selected for review that are on both this list and the list obtained at step (7) above, those engagements (or portions of those engagements) should be selected for review. In any event, at least one engagement on the list obtained in this step should be reviewed in each office visited.



Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p><b>I. <u>INSPECTION</u></b></p> <p>1. Interview the individual responsible for the inspection function and discuss the following questions:</p> <p>a) What criteria are considered in selecting individuals to participate in the inspection activities?</p> <p>b) What criteria are considered in selecting offices and engagements for review?</p> <p>c) Do you believe that sufficient resources, including inspection review time and senior management attention, are devoted to inspection, including follow-up on the inspection findings?</p> <p>d) How do you monitor whether the corrective actions planned as a result of the inspection are appropriate and are actually taken?</p> <p>e) Do you believe that you have sufficient authority to ensure that the inspection is performed in a comprehensive and timely manner?</p> <p>2. Review the available documentation supporting annual inspections conducted since the last peer review, if any, and evaluate whether:</p> <p>a) The inspectors have sufficient training and experience for the task(s) assigned.</p>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>b) The inspection coverage included:</p> <ul style="list-style-type: none"> <li>i) Reviewing and testing compliance with applicable firm quality control policies and procedures, including those relating to all elements of the quality control system.</li> <li>ii) Reviewing an appropriate number and type of engagements for compliance with professional standards.</li> <li>iii) Reviewing an appropriate number of offices.</li> </ul> <p>c) The inspection findings are appropriately documented and summarized.</p> <p>d) The design and content of the programs, checklists, and instructions related to the inspection policies and procedures are sufficient to enable the inspectors to evaluate the firm's compliance with its quality control policies and procedures in other areas.</p> <p>e) Appropriate corrective action was taken, including timely and effective follow-up (e.g., application of the provisions of AU Sections 390 and 561).</p> <p>3. Evaluate whether the inspection findings correlate with the peer review findings. Explain the reasons for any significant differences.</p> <p>4. Interview ____ staff or review other documentation to determine whether the inspection findings have been appropriately communicated. (See separate interview guidelines.)</p>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p><b>J. <u>MEMBERSHIP REQUIREMENTS FOR ALL MEMBERS</u></b></p> <ol style="list-style-type: none"> <li>1. Obtain reasonable assurance that each proprietor, shareholder, or partner of the firm resident in the United States and eligible for AICPA membership is a member of the AICPA by reviewing files, reviewing the <u>AICPA List of Members</u>, confirming membership with the Division's staff, or examining invoices and cancelled checks.</li> <li>2. Obtain reasonable assurance that a majority of the partners of the firm are CPAs (a separate determination may not be necessary, depending on the results of the previous step).</li> <li>3. Inquire about the existence of present or pending matters that might affect the ability of the firm to engage legally in the practice of public accounting.</li> <li>4. Determine by inquiry whether the firm is being or has been investigated during the last three years by any state board of accountancy in connection with the quality of the firm's accounting and auditing practice and, if available, the results thereof and consider -             <ol style="list-style-type: none"> <li>a) the possible effect on its right to practice.</li> <li>b) any other implications (e.g. effect on the scope of the peer review).</li> </ol> </li> <li>5. Review copies of the firm's annual reports and annual education reports to the Section and note any apparently inappropriate information that needs to be corrected.</li> <li>6. Review documentation evidencing payment of the applicable Section's dues for the current year.</li> </ol>		

**FOR SECPS MEMBERS ONLY**

7. Review the guidelines that have been developed in connection with the concurring partner review requirement and evaluate whether they:
  - a) Provide for the required review by a reviewer having sufficient technical expertise and experience.
  - b) Specify the nature, extent, and timing of the review.
  - c) Specify the nature and extent of the documentation required to evidence compliance with the firm's policies and procedures with respect to the concurring partner review requirement.
8. Evaluate the adequacy of the firm's system for reporting litigation to the Quality Control Inquiry Committee pursuant to membership requirement IV.3(m).
9. Determine by inquiry and by inspecting letters to the Quality Control Inquiry Committee that litigation against the firm since the firm's last peer review (or the firm became a member of the SECPS, whichever is later) was reported on a timely basis pursuant to membership requirement IV.3(m).2/

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2/ New member firms shall report within 30 days of joining the section, such litigation, proceedings or investigations, as defined, as may have been filed or announced within the three-year period preceeding the firm's admission to the section.

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>10. Interview supervisory personnel involved in management advisory services regarding their understanding of the scope of the firm's services in that area and their familiarity with the Section's requirements proscribing the performance of certain management advisory services.</p> <p>11. Evaluate the adequacy of the firm's system for monitoring compliance with membership requirement IV.3(e) [partner rotation on SEC engagements].</p> <p>12. Evaluate the adequacy of the firm's procedures for communicating at least annually with the audit committee or board of directors of each SEC audit client regarding the matters discussed in membership requirement IV.3(p), if they come to the auditor's attention, and for documenting such communication in the working papers.<sup>2/</sup></p> <p>13. Review the statement of firm philosophy that has been developed pursuant to membership requirement IV.3(o) and evaluate whether it is consistent with the firm's quality control policies and procedures. Interview ____ professional staff (including partners) and confirm their awareness of the statement.</p>		
<hr/> <p><sup>2/</sup>Early application of SAS No. 61, "Communications with Audit Committees", along with communication of the total fees received from an SEC client for MAS and a description of the types of such services rendered, will be deemed to be compliance with this membership requirement. Effective for audits of periods beginning on or after January 1, 1989, membership requirement IV.3(p) is rescinded and membership requirement IV.3(j) is reinstated.</p>		

**Suggested Review Procedures****Remarks and Findings  
Including Extent of Testing****Done By  
(Initials)**

14. Evaluate the adequacy of the firm's system for notifying the Office of Chief Accountant of the SEC on a timely basis [pursuant to membership requirement IV.3(q)] when the client-auditor relationship with an SEC registrant has ceased.
15. Select \_\_\_ SEC clients where, since May 1, 1989 or the end of the last peer review year, whichever comes later, the firm ceased to be the auditor, and review the letter notifying the Office of the Chief Accountant of the SEC that the client-auditor relationship has ceased.<sup>3</sup>[Consider including in this selection any such engagements that were reviewed.]

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<sup>3</sup>/The reviewer may wish to obtain a list of former clients meeting these criteria.

**SECTION 3**

**AICPA DIVISION FOR CPA FIRMS**

**Staff Interview Questionnaire**

**(See Page iii of the "Instructions for  
Use of the Peer Review Program Guidelines")**

### SECTION 3

#### **AICPA DIVISION FOR CPA FIRMS PEER REVIEW PROGRAM GUIDELINES**

#### **STAFF INTERVIEW QUESTIONNAIRE**

The review of a CPA firm's quality control policies and procedures frequently requires that firm personnel be interviewed. Interviews with firm personnel are generally contemplated as a corroborative technique rather than as a means for initially gathering information. Reviewers should consider the nature of the topic, the level of the personnel being interviewed, and the size of the firm when soliciting information. This questionnaire lists suggested interview questions that may be tailored as the interviewer deems appropriate. One copy of the interview questionnaire is supplied with these Guidelines. Additional copies of the questionnaire should be reproduced as needed. (See also page iii of the "Instructions for Use of the Peer Review Program Guidelines.")

Office Code No.

Interviewee Code

Level of Interviewee

The Interviewee should be advised that no record is kept of his or her name.

<u>Suggested Questions</u>	<u>Responses</u>
<p><b>A. <u>INDEPENDENCE</u></b></p> <p>1. How does the firm inform you of its policies and of those entities to which the firm's independence policies apply?</p> <p>2. What kinds of situations might cause you to have a question on an independence matter?</p> <p>If you had such a question, what would you do?</p> <p>3. Has another firm ever performed a segment of an engagement on which you have been involved and for which your firm was the principal auditor? Yes ____ No ____ . If yes, has the independence of that firm been confirmed? Yes ____ No ____ . If not, why?</p>	



**B. ASSIGNING PERSONNEL TO ENGAGEMENTS**

1. What types of assignments have you had in the past?
2. Do you believe that the assignments you have received have been appropriate and well diversified?

**C. CONSULTATION**

1. When you do not know the answer to an accounting or auditing question, with whom do you consult?
2. Has the firm identified any specialized situations requiring consultation? Yes \_\_\_\_ No \_\_\_\_\_. If yes, give a few examples. How have you been apprised of situations requiring consultation with a specialist?
3. Has the firm identified any individuals within the firm as (industry) specialists? Yes \_\_\_\_ No \_\_\_\_\_. If yes, give a few examples. How have you been apprised of them?
4. What degree of authority is accorded the opinions of specialists, if any, and how are any differences of opinion with such specialists resolved?

**D. SUPERVISION**

1. Do you believe that the engagements on which you have participated have been properly planned? Yes \_\_\_\_ No \_\_\_\_.  
If no, explain why.
2. In planning an engagement, what forms should be prepared and what procedures should be performed? (Applicable only to staff with planning responsibility.)
3. To what extent have you been supervised on the engagements on which you have participated and do you believe that the degree of supervision was adequate?
4. To what extent have you supervised other people on engagements on which you have participated? Were you adequately trained to carry out that responsibility?
5. How are differences of professional judgment among members of an engagement team resolved?

**E. HIRING****New Hires**

1. How did you learn about the firm?
2. Why did you select this firm? Have your expectations been met?
3. How were you informed about the policies and procedures that are relevant to you?

**Staff Involved in Recruiting Process**

4. Prior to becoming involved in the hiring process, were you informed about the firm's hiring objectives? Yes \_\_\_\_  
No \_\_\_\_\_. If yes, how were you apprised of this information?
5. What attributes, achievements and experiences are sought in hirees?

**F. PROFESSIONAL DEVELOPMENT**

1. What is your general evaluation of the courses you attended in the last year, and do you believe that the courses you attended contributed to your professional competence?
2. To what extent have you been provided with training during the performance of engagements (on-the-job training)?
3. Do you believe that the on-the-job training that you received was adequate? Yes \_\_\_\_ No \_\_\_\_\_. If no, briefly describe why.

Suggested Question	Responses
<p><b>G. <u>ADVANCEMENT</u></b></p> <ol style="list-style-type: none"> <li>1. What is your current position in the firm, including title and related responsibilities?</li> <li>2. What are the qualifications deemed necessary for promotion to the level immediately above yours?</li> <li>3. To what extent do you receive feedback on your performance? Do you feel that this is satisfactory?</li> <li>4. How often have you been evaluated during the last year and do you believe that these evaluations, if any, were performed on a timely basis? Were they fair?</li> </ol>	
<p><b>H. <u>ACCEPTANCE AND CONTINUANCE OF CLIENTS</u></b></p> <ol style="list-style-type: none"> <li>1. What conditions on an engagement would cause you to bring them to the attention of your supervisor so that a decision could be made whether the firm's relationship with the client should be continued?</li> </ol>	

Suggested Question	Responses
<p><b>I. <u>INSPECTION</u></b></p> <ol style="list-style-type: none"> <li>1. Were any of the engagements on which you worked selected for review during the most recent inspection and the one immediately preceding it? Yes ____ No ____ . If yes, were you made aware of the findings concerning your work and were they considered on the subsequent engagement(s)?</li> <li>2. What were the findings of the most recent inspection and how were these communicated to you?</li> </ol> <p><b>J. <u>MEMBERSHIP REQUIREMENTS (SECPS ONLY)</u></b></p> <ol style="list-style-type: none"> <li>1. What does the firm's "statement of philosophy" state?</li> </ol>	

Date of Interview \_\_\_\_\_

Interviewer's Signature \_\_\_\_\_

Date Interview Questionnaire Reviewed by Team Captain \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_

## **SECTION 4**

### **AICPA DIVISION FOR CPA FIRMS**

#### **Conclusions on the Peer Review**

**[See Pages iv and v of the "Instructions for Use of the  
Peer Review Program Guidelines"]**

**SECTION 4**  
**AICPA DIVISION FOR CPA FIRMS**

**Conclusions on the Peer Review**

[See Pages iv and v of the "Instructions for Use of the  
Peer Review Program Guidelines"]

	<u>YES</u>	<u>NO</u>
<b>A. <u>INDEPENDENCE</u></b>		
1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that:		
a. All professional personnel are required to adhere to applicable independence rules, regulations, interpretations, and rulings?	_____	_____
b. The policies and procedures relating to independence are communicated to all professional personnel?	_____	_____
c. When acting as principal auditor, the firm requires confirmation of the independence of another firm engaged to perform segments of an engagement?	_____	_____
d. The firm adequately monitors compliance with its policies and procedures relating to independence on a timely basis?	_____	_____
e. The firm complied with its independence policies and procedures during the period and adequately documented its compliance to the extent required by firm policy?	_____	_____

**IF ANY OF THE ABOVE QUESTIONS WERE ANSWERED "NO," PLEASE ANSWER THE REMAINING QUESTIONS**

	<u>YES</u>	<u>NO</u>
2. In your opinion, do the "no" answers indicate:		
a. A deficiency in the design of the system of quality control?	_____	_____
b. Noncompliance with the system of quality control?	_____	_____

## INDEPENDENCE (CONTINUED)

3. Briefly describe all "no" answers below. Indicate if the "no" answers represent a lack of performance or inadequate documentation.\*

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4. In your opinion, do the "no" answers indicate matters that should\*\*:

a. Result in a modified report? Yes \_\_\_\_ No \_\_\_\_.

Briefly explain why.

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b. Be included in the letter of comments? Yes \_\_\_\_ No \_\_\_\_

Briefly explain why and if "no" whether they were communicated orally.

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Reviewer's Signature \_\_\_\_\_ Date \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_ Date \_\_\_\_\_

\* Attach additional pages if necessary.

\*\*See pages 2-24 through 2-31 of the PCPS and SECPS manuals for guidance on reporting.



YESNO**B. ASSIGNING PERSONNEL TO ENGAGEMENTS**

1. Based on reading the relevant section of the quality control document, and other relevant written firm materials and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm:

a. Identifies on a timely basis the staffing requirements of specific engagements?

\_\_\_\_\_

\_\_\_\_\_

b. Communicates its policies and procedures for assigning personnel to engagements to professional personnel?

\_\_\_\_\_

\_\_\_\_\_

c. Appropriately considers the following factors in assigning partners and staff to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization:

i. Engagement size and complexity?

\_\_\_\_\_

\_\_\_\_\_

ii. Timing of the work to be performed?

\_\_\_\_\_

\_\_\_\_\_

iii. Special expertise required?

\_\_\_\_\_

\_\_\_\_\_

iv. Continuity and periodic rotation of personnel?

\_\_\_\_\_

\_\_\_\_\_

v. Opportunities for on-the-job training?

\_\_\_\_\_

\_\_\_\_\_

vi. Personnel availability?

\_\_\_\_\_

\_\_\_\_\_

d. Notifies staff of work assignments on a timely basis?

\_\_\_\_\_

\_\_\_\_\_

e. Complied with its policies and procedures for assigning personnel to engagements during the period and adequately documented its compliance to the extent required by firm policy?

\_\_\_\_\_

\_\_\_\_\_

**IF ANY OF THE ABOVE QUESTIONS WERE ANSWERED "NO," PLEASE ANSWER THE REMAINING QUESTIONS**

YESNO

2. In your opinion, do the "no" answers indicate:

a. A deficiency in the design of the system of quality control?

\_\_\_\_\_

\_\_\_\_\_

b. Noncompliance with the system of quality control?

\_\_\_\_\_

\_\_\_\_\_

### ASSIGNING PERSONNEL TO ENGAGEMENTS (CONTINUED)

3. Briefly describe all "no" answers below. Indicate if the "no" answers represent a lack of performance or inadequate documentation.\*

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4. In your opinion, do the "no" answers indicate matters that should\*\*:

a. Result in a modified report? Yes \_\_\_\_ No \_\_\_\_.

Briefly explain why.

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b. Be included in the letter of comments? Yes \_\_\_\_ No \_\_\_\_.

Briefly explain why and if "no" whether they were communicated orally.

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Reviewer's Signature \_\_\_\_\_ Date \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_ Date \_\_\_\_\_

\* Attach additional pages if necessary.

\*\*See pages 2-24 through 2-31 of the PCPS and SECPS manuals for guidance on reporting.

YESNO**C. CONSULTATION**

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm:

a. Appropriately identifies areas and specialized situations where consultation is required?

\_\_\_\_\_

\_\_\_\_\_

b. Designates, if applicable, appropriate individuals as specialists to serve as authoritative sources?

\_\_\_\_\_

\_\_\_\_\_

c. Specifies the authority to be accorded specialists in consultations?

\_\_\_\_\_

\_\_\_\_\_

d. Provides adequate procedures for resolving differences of opinion between engagement personnel and specialists?

\_\_\_\_\_

\_\_\_\_\_

e. Requires and maintains appropriate documentation of the results of consultations, including, if applicable, considerations involved in the resolution of differences of opinion?

\_\_\_\_\_

\_\_\_\_\_

f. Maintains or provides access to an adequate reference library or other authoritative source?

\_\_\_\_\_

\_\_\_\_\_

g. Adequately communicates its policies and procedures relating to consultation to all professional personnel?

\_\_\_\_\_

\_\_\_\_\_

h. Complied with its policies and procedures for consultation during the period and adequately documented its compliance to the extent required by firm policy?

\_\_\_\_\_

\_\_\_\_\_

**IF ANY OF THE ABOVE QUESTIONS WERE ANSWERED "NO," PLEASE ANSWER THE REMAINING QUESTIONS**

YESNO

2. In your opinion, do the "no" answers indicate:

a. A deficiency in the design of the system of quality control?

\_\_\_\_\_

\_\_\_\_\_

b. Noncompliance with the system of quality control?

\_\_\_\_\_

\_\_\_\_\_

### CONSULTATION (CONTINUED)

3. Briefly describe all "no" answers below. Indicate if the "no" answers represent a lack of performance or inadequate documentation.\*

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4. In your opinion, do the "no" answers indicate matters that should\*\*:

- a. Result in a modified report? Yes \_\_\_\_ No \_\_\_\_.

Briefly explain why. \_\_\_\_\_

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- b. Be included in the letter of comments? Yes \_\_\_\_ No \_\_\_\_.

Briefly explain why and if "no" whether they were communicated orally. \_\_\_\_\_

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Reviewer's Signature \_\_\_\_\_ Date \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_ Date \_\_\_\_\_

\* Attach additional pages if necessary.

\*\*See pages 2-24 through 2-31 of the PCPS and SECPS manuals for guidance on reporting.

YESNO**D. SUPERVISION**

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm:

a. Has established appropriate procedures for planning engagements?

\_\_\_\_\_

\_\_\_\_\_

b. Has established appropriate procedures for maintaining the firm's standards of quality, including:

i. Guidelines for the form and content of working papers?

\_\_\_\_\_

\_\_\_\_\_

ii. Standardized forms, checklists, questionnaires, and other guidance materials to the extent appropriate?

\_\_\_\_\_

\_\_\_\_\_

iii. Adequate supervision at all organizational levels?

\_\_\_\_\_

\_\_\_\_\_

iv. Procedures for resolving differences of professional judgment among the engagement team?

\_\_\_\_\_

\_\_\_\_\_

c. Has established appropriate procedures for reviewing engagements and for the documentation thereof?

\_\_\_\_\_

\_\_\_\_\_

d. Adequately communicates its policies and procedures relating to supervision to all professional personnel?

\_\_\_\_\_

\_\_\_\_\_

e. Complied with its policies and procedures for supervision during the period and adequately documents its compliance to the extent required by firm policy?

\_\_\_\_\_

\_\_\_\_\_

f. Conformed with professional standards during the period in the performance of the accounting and auditing engagements selected for review?

\_\_\_\_\_

\_\_\_\_\_

**IF ANY OF THE ABOVE QUESTIONS WERE ANSWERED "NO," PLEASE ANSWER THE REMAINING QUESTIONS**

YESNO

2. In your opinion, do the "no" answers indicate:

a. A deficiency in the design of the system of quality control?

\_\_\_\_\_

\_\_\_\_\_

b. Noncompliance with the system of quality control?

\_\_\_\_\_

\_\_\_\_\_

**SUPERVISION (CONTINUED)**

3. Briefly describe all "no" answers below. Indicate if the "no" answers represent a lack of performance or inadequate documentation.\*

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4. In your opinion, do the "no" answers indicate matters that should\*\*:

a. Result in a modified report? Yes \_\_\_\_ No \_\_\_\_

Briefly explain why. \_\_\_\_\_

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b. Be included in the letter of comments? Yes \_\_\_\_ No \_\_\_\_

Briefly explain why and if "no" whether they were communicated orally. \_\_\_\_\_

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Reviewer's Signature \_\_\_\_\_ Date \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_ Date \_\_\_\_\_

\* Attach additional pages if necessary.

\*\*See pages 2-24 through 2-31 of the PCPS and SECPS manuals for guidance on reporting.

YES

NO

**E. HIRING**

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm:

a. Adequately plans for the firm's personnel needs and establishes appropriate hiring objectives, based on current clientele, anticipated growth, personnel turnover, etc?

\_\_\_\_\_

\_\_\_\_\_

b. Identifies relevant attributes, achievements and experience to be sought in hirees?

\_\_\_\_\_

\_\_\_\_\_

c. Appropriately investigates and evaluates the qualifications of prospective employees to assure that they meet the firm's requirements and standards?

\_\_\_\_\_

\_\_\_\_\_

d. Adequately communicates its policies and procedures relating to hiring to those persons involved in the hiring process?

\_\_\_\_\_

\_\_\_\_\_

e. Adequately monitors the effectiveness of its recruiting program?

\_\_\_\_\_

\_\_\_\_\_

f. Informs new personnel of the firm's policies and procedures on a timely basis?

\_\_\_\_\_

\_\_\_\_\_

g. Complied with its policies and procedures relating to hiring during the period and adequately documented its compliance to the extent required by firm policy?

\_\_\_\_\_

\_\_\_\_\_

**IF ANY OF THE ABOVE QUESTIONS WERE ANSWERED "NO," PLEASE ANSWER THE REMAINING QUESTIONS**

YES

NO

2. In your opinion, do the "no" answers indicate:

a. A deficiency in the design of the system of quality control?

\_\_\_\_\_

\_\_\_\_\_

b. Noncompliance with the system of quality control?

\_\_\_\_\_

\_\_\_\_\_

## HIRING (CONTINUED)

3. Briefly describe all "no" answers below. Indicate if the "no" answers represent a lack of performance or inadequate documentation.\*

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4. In your opinion, do the "no" answers indicate matters that should\*\*:

a. Result in a modified report? Yes \_\_\_\_ No \_\_\_\_

Briefly explain why. \_\_\_\_\_

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b. Be included in the letter of comments? Yes \_\_\_\_ No \_\_\_\_

Briefly explain why and if "no" whether they were communicated orally. \_\_\_\_\_

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Reviewer's Signature \_\_\_\_\_ Date \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_ Date \_\_\_\_\_

\* Attach additional pages if necessary.

\*\*See pages 2-24 through 2-31 of the PCPS and SECPS manuals for guidance on reporting.



	<u>YES</u>	<u>NO</u>
<b>F. <u>PROFESSIONAL DEVELOPMENT</u></b>		
1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm:		
a. Has established appropriate continuing professional education requirements for personnel at each level within the firm?	_____	_____
b. Adequately monitors the development of continuing professional education programs, maintains appropriate records, and monitors the records?	_____	_____
c. Provides personnel with appropriate professional literature relating to current developments on a timely basis?	_____	_____
d. Provides personnel with appropriate programs, including to the extent necessary, programs to fill the firm's needs for personnel with expertise in specialized areas and industries?	_____	_____
e. Provides adequate on-the-job training?	_____	_____
f. Adequately communicates its policies and procedures relating to continuing professional education to all professional personnel?	_____	_____
g. Complied with its policies and procedures relating to professional development during the period and adequately documented its compliance to the extent required by firm policy?	_____	_____

**IF ANY OF THE ABOVE QUESTIONS WERE ANSWERED "NO," PLEASE ANSWER THE REMAINING QUESTIONS**

	<u>YES</u>	<u>NO</u>
2. In your opinion, do the "no" answers indicate:		
a. A deficiency in the design of the system of quality control?	_____	_____
b. Noncompliance with the system of quality control?	_____	_____

**PROFESSIONAL DEVELOPMENT (CONTINUED)**

3. Briefly describe all "no" answers below. Indicate if the "no" answers represent a lack of performance or inadequate documentation.\*

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4. In your opinion, do the "no" answers indicate matters that should\*\*:

- a. Result in a modified report? Yes \_\_\_\_ No \_\_\_\_.

Briefly explain why. \_\_\_\_\_

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- b. Be included in the letter of comments? Yes \_\_\_\_ No \_\_\_\_.

Briefly explain why and if "no" whether they were communicated orally. \_\_\_\_\_

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Reviewer's Signature \_\_\_\_\_ Date \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_ Date \_\_\_\_\_

\* Attach additional pages if necessary.

\*\*See pages 2-24 through 2-31 of the PCPS and SECPS manuals for guidance on reporting.

YESNO**G. ADVANCEMENT**

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm:

a. Has established appropriate qualifications for the various levels of responsibility within the firm?

\_\_\_\_\_

\_\_\_\_\_

b. Has identified relevant criteria for evaluating individual performance and expected proficiency?

\_\_\_\_\_

\_\_\_\_\_

c. Adequately communicates criteria for evaluating individual performance and expected proficiency to professional personnel?

\_\_\_\_\_

\_\_\_\_\_

d. Appropriately evaluates the performance of partners and other professional personnel on a periodic basis?

\_\_\_\_\_

\_\_\_\_\_

e. Provides for appropriate documentation of evaluations of performance?

\_\_\_\_\_

\_\_\_\_\_

f. Appropriately evaluates the data obtained regarding performance and gives proper recognition in advancement decisions to the quality of work performed?

\_\_\_\_\_

\_\_\_\_\_

g. Appropriately monitors the firm's advancement experience on a periodic basis to ascertain whether individuals meeting stated criteria are assigned increasing degrees of responsibility?

\_\_\_\_\_

\_\_\_\_\_

h. Complied with its advancement policies and procedures during the period and adequately documents its compliance to the extent required by firm policy?

\_\_\_\_\_

\_\_\_\_\_

**IF ANY OF THE ABOVE QUESTIONS WERE ANSWERED "NO," PLEASE ANSWER THE REMAINING QUESTIONS**

YESNO

2. In your opinion, do the "no" answers indicate:

a. A deficiency in the design of the system of quality control?

\_\_\_\_\_

\_\_\_\_\_

b. Noncompliance with the system of quality control?

\_\_\_\_\_

\_\_\_\_\_

**ADVANCEMENT (CONTINUED)**

3. Briefly describe all "no" answers below. Indicate if the "no" answers represent a lack of performance or inadequate documentation.\*

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4. In your opinion, do the "no" answers indicate matters that should\*\*:

- a. Result in a modified report? Yes \_\_\_\_ No \_\_\_\_.

Briefly explain why. \_\_\_\_\_

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- b. Be included in the letter of comments? Yes \_\_\_\_ No \_\_\_\_.

Briefly explain why and if "no" whether they were communicated orally. \_\_\_\_\_

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Reviewer's Signature \_\_\_\_\_ Date \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_ Date \_\_\_\_\_

\* Attach additional pages if necessary.

\*\*See pages 2-24 through 2-31 of the PCPS and SECPS manuals for guidance on reporting.

YES

NO

**H. ACCEPTANCE AND CONTINUANCE OF CLIENTS**

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm:

a. Has established appropriate policies and procedures for evaluating and obtaining information about prospective clients?

\_\_\_\_\_

\_\_\_\_\_

b. Requires communication with predecessor auditors, if any, in accordance with auditing standards?

\_\_\_\_\_

\_\_\_\_\_

c. Has established appropriate policies and procedures for evaluating whether the relationship with existing clients should be continued?

\_\_\_\_\_

\_\_\_\_\_

d. Communicates its policies and procedures for accepting and continuing clients to appropriate personnel?

\_\_\_\_\_

\_\_\_\_\_

e. Adequately monitors its compliance with its policies and procedures relating to acceptance and continuance of clients?

\_\_\_\_\_

\_\_\_\_\_

f. Complied with its policies and procedures relating to acceptance and continuance of clients during the period and adequately documents its compliance to the extent required by firm policy?

\_\_\_\_\_

\_\_\_\_\_

**IF ANY OF THE ABOVE QUESTIONS WERE ANSWERED "NO," PLEASE ANSWER THE REMAINING QUESTIONS**

YES

NO

2. In your opinion, do the "no" answers indicate:

a. A deficiency in the design of the system of quality control?

\_\_\_\_\_

\_\_\_\_\_

b. Noncompliance with the system of quality control?

\_\_\_\_\_

\_\_\_\_\_

**ACCEPTANCE AND CONTINUANCE OF CLIENTS (CONTINUED)**

3. Briefly describe all "no" answers below. Indicate if the "no" answers represent a lack of performance or inadequate documentation.\*

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4. In your opinion, do the "no" answers indicate matters that should\*\*:

- a. Result in a modified report? Yes \_\_\_\_ No \_\_\_\_.

Briefly explain why.

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- b. Be included in the letter of comments? Yes \_\_\_\_ No \_\_\_\_.

Briefly explain why and if "no" whether they were communicated orally.

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Reviewer's Signature \_\_\_\_\_ Date \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_ Date \_\_\_\_\_

\* Attach additional pages if necessary.

\*\*See pages 2-24 through 2-31 of the PCPS and SECPS manuals for guidance on reporting.

YES

NO

**I. INSPECTION**

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of specific procedures performed, do you conclude that:

a. The firm has established appropriate inspection procedures to provide reasonable assurance that the firm's quality control policies and procedures in other areas are operating effectively?

\_\_\_\_\_

\_\_\_\_\_

b. The firm has established appropriate qualifications for personnel who participate in inspection activities?

\_\_\_\_\_

\_\_\_\_\_

c. A comprehensive inspection was performed and documented

i. Covering the year under review?

\_\_\_\_\_

\_\_\_\_\_

ii. Covering the two preceding years?

\_\_\_\_\_

\_\_\_\_\_

d. Inspection findings are discussed with appropriate personnel?

\_\_\_\_\_

\_\_\_\_\_

e. Appropriate corrective actions are taken or planned with respect to the inspection findings?

\_\_\_\_\_

\_\_\_\_\_

f. The firm adequately monitors the corrective actions taken.

\_\_\_\_\_

\_\_\_\_\_

**IF ANY OF THE ABOVE QUESTIONS WERE ANSWERED "NO," PLEASE ANSWER THE REMAINING QUESTIONS**

YES

NO

2. In your opinion, do the "no" answers indicate:

a. A deficiency in the design of the system of quality control?

\_\_\_\_\_

\_\_\_\_\_

b. Noncompliance with the system of quality control?

\_\_\_\_\_

\_\_\_\_\_

**INSPECTION (CONTINUED)**

3. Briefly describe all "no" answers below. Indicate if the "no" answers represent a lack of performance or inadequate documentation.\*

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4. In your opinion, do the "no" answers indicate matters that should\*\*:

- a. Result in a modified report? Yes \_\_\_\_ No \_\_\_\_.

Briefly explain why. \_\_\_\_\_

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- b. Be included in the letter of comments? Yes \_\_\_\_ No \_\_\_\_

Briefly explain why and if "no" whether they were communicated orally. \_\_\_\_\_

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Reviewer's Signature \_\_\_\_\_ Date \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_ Date \_\_\_\_\_

\* Attach additional pages if necessary.

\*\*See pages 2-24 through 2-31 of the PCPS and SECPS manuals for guidance on reporting.



YES

NO

**J. MEMBERSHIP REQUIREMENTS**

1. Based on reading the relevant section in the quality control document (if any) and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm complied with each of the Section's membership requirements in all material respects? \_\_\_\_\_

**IF THE ANSWER TO THE PRECEDING QUESTION WAS ANSWERED "NO", PLEASE ANSWER THE REMAINING QUESTIONS**

2. Briefly describe the reason for the "no" answers below. \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. In your opinion, does the "no" answer indicate matters that should\*\*:

- a. Result in a modified report? Yes \_\_\_ No \_\_\_.

Briefly explain why. \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- b. Be included in the letter of comments? Yes \_\_\_ No \_\_\_.

Briefly explain why and if "no" whether they were communicated orally. \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Reviewer's Signature \_\_\_\_\_ Date \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_ Date \_\_\_\_\_

\* Attach additional pages if necessary.

\*\* See pages 2-24 through 2-31 of the PCPS and SECPS manuals for guidance on reporting.

EXHIBIT A

MATTER FOR FURTHER CONSIDERATION

CONTROL NO. \_\_\_\_\_

REVIEWER'S DESCRIPTION OF THE MATTER

REVIEWED FIRM AGREES WITH THE DESCRIPTION OF THE MATTER? YES \_\_\_\_ NO \_\_\_\_

REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

REVIEWER'S ADDITIONAL COMMENTS

Check One: Design \_\_\_\_\_  
Performance \_\_\_\_\_  
Compliance-Membership \_\_\_\_\_  
Compliance-Other \_\_\_\_\_  
Documentation \_\_\_\_\_

(Note: This sample MFC form has been reduced in size. The actual form is 8 1/2" x 14" and is available from the Quality Control Review Division staff.)

TEAM CAPTAIN'S COMMENTS, IF ANY

-----  
FIRM \_\_\_\_\_  
OFFICE CODE NO. \_\_\_\_\_

CONTROL NO. \_\_\_\_\_

Signatures

Dates

Engagement Partner \_\_\_\_\_

Reviewer \_\_\_\_\_

Team Captain \_\_\_\_\_

Program Questionnaire

Engagement

Section \_\_\_\_\_  
Element \_\_\_\_\_  
Program Step \_\_\_\_\_

No. \_\_\_\_\_  
Checklist Page \_\_\_\_\_  
Program Step \_\_\_\_\_

## INSTRUCTIONS FOR USE OF MFC FORMS

1. If an MFC was prepared during the course of the review and subsequent information indicates that the form should not have been prepared, it may be discarded. (For example, an MFC may be discarded if it stated that no letter was received from legal counsel, but an acceptable letter had been received and misfiled and was subsequently found. Similarly, an MFC may be discarded if it stated that documentation in a particular area was inadequate, but the reviewer reconsidered and decided that documentation was adequate.) On the other hand, if an MFC is prepared for a matter which is valid, the MFC should not be discarded even though it is subsequently decided that the matter need not be covered in the letter of comments.
2. Number MFCs consecutively (top and bottom) to establish correspondence between top and bottom stub.
3. MFCs relating to both functional and engagement review areas should be sorted by nature of comment.
4. Do not detach control stub until POB oversight is completed. (The stub should be detached only if the SEC accesses the working papers.)

EXHIBIT B

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

SUMMARY CHECKLIST FOR REVIEWS OF AUDIT ENGAGEMENTS

(See page iv of the "Instructions for  
Use of Peer Review Program Guidelines")

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1211 Avenue of the Americas, New York, NY 10036-8775

## SUMMARY CHECKLIST FOR REVIEWS OF AUDIT ENGAGEMENTS

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## I. REPORT AND FINANCIAL STATEMENTS

### Report and Disclosure Considerations Applicable to All Audit Engagements

#### Auditors' Report

Is the report dated in conformity with the requirements of professional standards?

Does the report adequately disclose all required matters and does its language conform to that required by professional standards (SAS No. 58)?

If required by the circumstances, does the auditors' report depart from the standard report and include appropriate language describing the departure?

If supplementary information accompanies the basic financial statements, does the auditor describe in his report the degree of responsibility, if any, he is taking?

For special reports, have the provisions of SAS Nos. 14, 35 and 62 been complied with regarding:

Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? (SAS Nos. 14 and 62)

Specified elements, accounts or items of a financial statement? (SAS Nos. 14, 35 and 62)

Compliance with aspects of agreements or regulatory requirements relating to audited financial statements? (SAS Nos. 14 and 62)

Financial presentations to comply with contractual agreements or regulatory provisions? (SAS No. 62)

Financial information that requires a prescribed form of auditor's report? (SAS Nos. 14 and 62)

QUES.	Engagement Code								MFC Ref.*
A101									
A102									
A103									
A104									
A105									
A106									
A107									
A108									
A109									

---

\* If the significance or frequency of the "no" answers warrant the preparation of a matter for further consideration form, provide the cross-reference.



For reports on financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the United States, has there been compliance with the provisions of SAS No. 51?

## Financial Statements and Footnotes

### General

Are the financial statements suitably titled?

Is the presentation appropriate and disclosure adequate regarding:

Significant accounting policies?

Accounting changes?

Comparative financial statements?

Business combinations?

Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards?

Is summarized financial information disclosed for majority-owned subsidiaries that were not consolidated in years prior to the application of FASB No. 94?

If the entity controls a group of related entities, did the auditor consider the need for combined financial statements?

Are required disclosures made concerning related party transactions?

Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed?

Are foreign operations and export sales adequately disclosed?

QUES.	Engagement Code								MFC Ref.*
A110									
A111									
A112									
A113									
A114									
A115									
A116									
A117									
A118									
A119									
A120									
A121									

Are nonmonetary transactions accounted for and disclosed?

With respect to contingencies and commitments:

Are loss contingencies disclosed and/or accrued?

Are commitments and other contingencies adequately disclosed?

Are the financial statements, where appropriate, adjusted for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?

If FASB No. 87 is being applied, is the following information on defined benefit pension plans adequately disclosed:

A description of the plan?

The amount of net periodic pension cost and of required cost components?

A reconciliation of the plan's funded status with the amounts reported in the employer's balance sheet?

The discount rate and rate of compensation increase used to measure the projected benefit obligation and the long-term rate of return on plan assets?

Other information concerning plan assets, benefits, and amortization methods?

Are all other pension plans adequately disclosed?

Are postretirement health care and life insurance benefits properly disclosed?

If the entity is or has been a "development stage enterprise," are adequate disclosures made?

Do the financial statements, where required, include appropriate presentations of:

Segment information?

QUES.	Engagement Code								MFC Ref.*
A122									
A123									
A124									
A125									
A126									
A127									
A128									
A129									
A130									
A131									
A132									
A133									
A134									

Major customers?

Futures contracts?

Balance Sheet

Is the presentation appropriate and disclosure adequate regarding:

Segregation of assets and liabilities into current and noncurrent classifications?

Valuation allowances?

Restricted cash, including compensating balances?

Marketable equity securities?

Other marketable securities?

Receivables:

Unbilled receivables?

Loans and related origination fees?

Effect of interest rates which do not reflect market rates?

Receivables related to troubled debt restructurings?

Other receivables

Inventories?

Investments?

Property and equipment, including accounting for depreciation, assets of discontinued operations, investment credit, and capitalized interest?

Sales-type, direct financing, and operating leases of lessors?

Other assets, including intangible assets, unamortized computer software costs, deferred tax assets, and deferred charges?

QUES.	Engagement Code								MFC Ref.*
A135									
A136									
A137									
A138									
A139									
A140									
A141									
A142									
A143									
A144									
A145									
A146									
A147									
A148									
A149									
A150									
A151									

Pledged assets?

Current liabilities?

Short-term liabilities expected to be refinanced?

Notes payable and other debt--

    Maturities and rates?

    Other terms and covenants?

    Effect of interest rates which do not reflect market rates?

    Effect of troubled debt restructurings?

    Effect of early extinguishment of debt?

    Maturities and sinking fund requirements for the next five years?

Capital and operating leases of lessees?

Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue?

Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?

Stock option and stock purchase plans?

Stock subscriptions receivable?

Retained earnings, including appropriations thereof and restrictions on dividends?

Changes in stockholders' equity?

Redemption requirements on capital stock for the next five years?

QUES.	Engagement Code								MFC Ref.*
A152									
A153									
A154									
A155									
A156									
A157									
A158									
A159									
A160									
A161									
A162									
A163									
A164									
A165									
A166									
A167									
A168									

### Income Statement

Are the important components of the income statement separately disclosed?

Is the presentation appropriate and disclosure adequate regarding:

Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?

Gains and losses, realized and unrealized, from marketable equity securities?

Income and income taxes on investments in securities accounted for on the equity method?

Research and development costs?

Computer software costs?

Interest costs?

Discount or premium on notes receivable or payable?

Depreciation?

Pension costs?

Compensatory stock issuance plan?

Deferred compensation agreements?

Sales transactions in which the buyer has a right to return the product?

Product financing arrangements?

Income taxes, computed under the early application of FASB No. 96, to include:

The types of temporary differences that cause significant portions of a deferred tax liability or asset?

QUES.	Engagement Code							MFC Ref.*
A169								
A170								
A171								
A172								
A173								
A174								
A175								
A176								
A177								
A178								
A179								
A180								
A181								
A182								
A183								

Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status?

QUES.	Engagement Code								MFC Ref.*
A184									
A185									
A186									
A187									
A188									
A189									
A190									
A191									
A192									
A193									
A194									

Reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations?

Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes?

Other information concerning tax expense, benefits and the effects of income taxes?

Income taxes computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from the customary relationship between income and taxes?

Discontinued operations?

Extraordinary and unusual items?

Earnings per share information?

#### Statement of Changes in Financial Position

Is a statement of changes in financial position presented for each period for which an income statement is presented?

Does it disclose all important aspects of financing and investing activities?

Are net changes in each element of working capital disclosed?

### Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided?

Does it report cash provided or used by investing financing, and operating activities?

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet?

Does it provide a reconciliation between net income and net cash flow from operating activities?

Are noncash investing and financial activities disclosed?

If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed?

### Other

If the industry in which the client is operating is covered by an accounting and audit guide, are the suggested format, statements, and disclosures consistent with the guide?

QUES.	Engagement Code							MFC Ref.*
A195								
A196								
A197								
A198								
A199								
A200								
A201								

### Report and Disclosure Considerations Unique to State or Local Governmental Entities

#### Auditor's Reports

Does (do) the auditor's report(s) on the general purpose or component unit financial statements include all required matters concerning the financial position and results of financial operations of the governmental unit and, where required, changes of financial position of proprietary funds or cash flows?

QUES.	Engagement Code							MFC Ref.*
G101								

## Financial Statements and Footnotes

### General

Are the following general purpose or component unit financial statements presented:

Combined Balance Sheet—All Fund Types and Account Groups?

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types and Expendable Trust Funds?

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual—General and Special Revenue Fund Types (and similar governmental funds types for which annual budgets have been legally adopted)?

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity)—All Proprietary Fund Types and similar trust funds?

Combined Statement of Changes in Financial Position—All Proprietary Fund Types?

Do the combined financial statements contain all funds and account groups that comprise the reporting entity, as defined in the footnotes?

If totals by account are presented in the General Purpose Financial Statements, are the totals noted as memorandum only?

If the auditor is expressing an opinion on summarized comparative information of the prior period, does the prior period's information contain sufficient detail to constitute a fair presentation in conformity with generally accepted accounting principles?

Do interfund receivables equal interfund payables or are the differences explained in the notes?

QUES.	Engagement Code								MFC Ref.*
G102									
G103									
G104									
G105									
G106									
G107									
G108									
G109									
G110									



Are transfers to other funds recorded either as residual equity or operating transfers, as appropriate?

Are special assessments receivables offset by deferred revenues?

Are taxes and other similar receivables appropriately recorded and disclosed net of uncollectable receivables?

If separate financial statements of a component unit are issued, is the relationship of the component unit to the reporting or oversight entity disclosed?

If a general fund is presented:

Are the statements prepared on the modified accrual basis?

Are significant sources of general fund revenues disclosed?

Are expenditures classified by function?

If special revenue funds are presented:

Are the statements prepared on the modified accrual basis?

Do the statements disclose the significant revenues and expenditures of each fund?

If debt service funds are presented:

Are the statements prepared on the modified accrual basis?

Do the statements disclose the significant revenues and expenditures of each fund?

If capital project funds are presented:

Are the statements prepared on the modified accrual basis?

Do the statements disclose the significant revenues and expenditures of each fund?

QUES.	Engagement Code							MFC Ref.*
G111								
G112								
G113								
G114								
G115								
G116								
G117								
G118								
G119								
G120								
G121								
G122								
G123								

If enterprise funds are presented:

Are the statements prepared on the accrual basis?

Is the enterprise fund's liability for general obligation and special assessment debt, if any, included in the enterprise fund's financial statements?

Are the restricted assets, liabilities payable from restricted assets, and portion of retained earnings required to be segregated for debt service separately disclosed?

Is the amount of contributed assets by source separately disclosed as contributions on the balance sheet?

Are operating and nonoperating revenues and expenses separately classified? (Federal and other grants for operations should be recognized as nonoperating revenues.)

If internal service funds are presented:

Are the statements prepared on the accrual basis?

Do the financial statements present the net billings to other funds as revenues and the related costs as expenses?

Are long-term advances segregated from current amounts payable to other funds?

If nonexpendable and/or pension trust funds are presented:

Are the statements prepared on the accrual basis?

Are the principal and income portions of trust fund equity classified in accordance with the trust document?

If Agency Funds are presented:

Are the balance sheets prepared on the modified accrual basis?

QUES.	Engagement Code							MFC Ref.*
G124								
G125								
G126								
G127								
G128								
G129								
G130								
G131								
G132								
G133								
G134								

If Expendable Trust Funds are presented:

Are the statements prepared on the modified accrual basis?

Do the financial statements disclose the significant revenues and expenditures of each fund?

If a general fixed assets account group is presented:

Are land, buildings, equipment, and construction-in-progress separately classified?

Where general fixed assets are depreciated, does the statement show the accumulated depreciation?

If General Long-Term Debt Account Group is presented:

Are general obligation term bonds and serial bonds separately disclosed?

Are other long-term liabilities (accrued vacation, leases, workers compensation, etc. separately disclosed?

Questions G141 through G168 should be answered only if the combining or individual fund financial statements are presented as primary financial statements. The reviewer should evaluate if the fund statements were complete in presentation of each fund or account group.

Are the following financial statements presented:

General fund:

Balance sheet?

Statement of revenues, expenditures and changes in fund balance?

Statement of revenues, expenditures and changes in fund balance - budget vs. actual?

QUES.	Engagement Code							MFC Ref.*
G135								
G136								
G137								
G138								
G139								
G140								
G141								
G142								
G143								

Special revenue funds:

Balance sheet?

Statement of revenues, expenditures and changes in fund balances?

Statement of revenues, expenditures and changes in fund balances - budget vs. actual?

Debt service funds:

Balance sheet?

Statement of revenues, expenditures and changes in fund balances?

Statement of revenues, expenditures and changes in fund balances - budget vs. actual?

Capital Project funds:

Balance sheet?

Statement of revenues, expenditures and changes in fund balances?

Statement of revenues, expenditures and changes in fund balances - budget vs. actual?

Enterprise funds:

Balance sheet?

Statement of revenues, expenses and changes in retained earnings?

Statement of changes in financial position or statement of cash flows?

Internal Service funds:

Balance sheet?

Statement of revenues, expenses and changes in retained earnings?

QUES.	Engagement Code								MFC Ref.*
G144									
G145									
G146									
G147									
G148									
G149									
G150									
G151									
G152									
G153									
G154									
G155									
G156									
G157									

QUES.	Engagement Code							MFC Ref.*
Statement of changes in financial position or statement of cash flows?	G158							
Nonexpendable and Pension trust funds:								
Balance sheet?	G159							
Statement of revenues, expenses and changes in fund balances?	G160							
Statement of changes in financial position or statement of cash flows?	G161							
Agency funds:								
Balance sheet?	G162							
Combining statement of changes in assets and liabilities, if appropriate?	G163							
Expendable Trust funds:								
Balance sheet?	G164							
Statement of revenues, expenditures and changes in fund balances?	G165							
Statement of revenues, expenditures and changes in fund balances - budget vs. actual?	G166							
If required, is a statement of general fixed assets presented?	G167							
If required, is a statement of general long- term debt presented?	G168							
<u>Other Footnote Disclosures</u>								
Is the presentation appropriate and are disclo- sures adequate regarding the following significant accounting policies:								
Definition of the governmental reporting entity, the criteria used to determine the scope of the reporting entity and specific reasons for excluding agencies that meet that criteria?	G169							
Basis of accounting applied to each fund?	G170							

Revenue recognition policies, including:

Definitions of modified accrual basis as to governmental fund types and of accrual basis as to proprietary fund types?

Description of revenue sources that are treated as "susceptible to accrual" under the modified accrual basis and those that are not?

Accounting for fixed assets concerning:

Classification in proprietary funds or general fixed assets account group?

Valuation basis of fixed assets, including capitalization policies for public domain (infrastructure) general fixed assets?

Depreciation methods and lives, including whether depreciation is reported on general fixed assets?

Capitalization of interest costs during construction?

Method of accounting and reporting for encumbrances?

Claims and judgments?

Interfund eliminations not apparent?

Long-term liabilities related to proprietary funds, nonexpendable trust and pension funds, and special assessment debt? (Long-term liabilities expected to be repaid from governmental funds are accounted for in the General Long-Term Debt Account Group.)

Valuation basis and significant or unusual accounting treatment for other assets, liabilities, and fund equity?

Significant accounting policies on expenditures?

QUES.	Engagement Code								MFC Ref.*
G171									
G172									
G173									
G174									
G175									
G176									
G177									
G178									
G179									
G180									
G181									
G182									

Statement that the "total" columns, if any, on GPFS or CUFS are presented for analytical purposes only?

Basis on which each budget is prepared, including:

Treatment of encumbrances?

Whether appropriations lapse at year end?

Explanation of the differences, if any, between the budgetary basis and accrual or modified accrual basis used for financial reporting of governmental funds?

Whether presented budgetary information has been amended?

Separate summary of significant accounting policies for discrete presentations?

Is the presentation appropriate and are disclosures adequate regarding the following:

Classified balance sheets, where appropriate?

Deferred compensation plans adopted under IRC 457?

Capital and operating leases of lessees?

Detail of the government's property tax calendar, including the lien, levy, due and collection dates?

Material noncompliance with finance-related legal and contractual provisions, including instances concerning budget amendments, expenditures exceeding appropriations, and debt exceeding legal limitations?

Deposits with financial institutions and investments, including risk categories, uninsured deposits, and other disclosures required by GASB No. 3?

Terms or circumstances concerning repurchase or reverse repurchase agreements?

QUES.	Engagement Code							MFC Ref.*
G183								
G184								
G185								
G186								
G187								
G188								
G189								
G190								
G191								
G192								
G193								
G194								
G195								

Receivables:

Loans or advances to other funds of the governmental units?

Taxes receivable?

Grant and other receivables from other governments?

Joint ventures and other investments?

Pooled cash and investment account?

Fixed assets, including changes during the period and capitalized interest?

Notes payable, bond, tax, and revenue anticipation notes, and other debt:

Special assessment debt and related activities?

Loans or advances from other funds of the governmental unit?

Debt service requirements to maturity?

Changes during the period including advance refundings resulting in defeasance of debt?

Unpaid debt that has been fully defeased?

Sinking fund contributions required as of year end?

Demand notes?

Compensation for future absences and special termination benefits for employees?

Designation or reservations or other restrictions of fund balances or retained earnings?

Revenues, expenses and expenditures:

Grants, entitlements, and shared revenue?

QUES.	Engagement Code							MFC Ref.*
G196								
G197								
G198								
G199								
G200								
G201								
G202								
G203								
G204								
G205								
G206								
G207								
G208								
G209								
G210								
G211								



Investment income?

Deficit fund balances or retained earnings of individual funds?

Interfund receivables and payables?

Are the nature and amount of inconsistencies in the financial statements caused by transactions between component units having year ends properly disclosed?

Are the financial statements, where appropriate, adjusted for the effects of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?

QUES.	Engagement Code								MFC Ref.*
G212									
G213									
G214									
G215									
G216									

Appendix A—Questions for Use When the Engagement Is Subject to Government Auditing Standards

Questions for use on engagements for which SAS No. 63 and the Government Auditing Standards were not yet effective and had not been adopted early.

If the engagement did not meet the above criteria, the reviewer should place an "X" in the box below.

☐ Not applicable

If required or deemed necessary, is there any indication that the firm considered the entity's audit requirements and agreed on the scope of the engagement with the entity?

Does the language in the auditor's report(s) conform with professional standards, including references to the GAO's Standards for Audits, and appropriately cover the following for the entity as a whole:

Internal accounting control based solely on a study and evaluation made as part of the audit of the financial statements?

QUES.	Engagement Code								MFC Ref.*
G401									
G402									
G403									

Compliance with finance-related legal and contractual provisions, including a summary of questioned costs and/or instances of noncompliance?

If appropriate, was the scope section of the reports properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results?

When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal act, or indications of such acts?

Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from the prior audits that affect current audit objectives?

If required by contractual obligations, were the findings presented in accordance with the guidance in the GAO's Standards for Audit regarding reporting on economy and efficiency audits and program result audits?

Questions for use on engagements when the 1988 Revision of Government Auditing Standards and SAS No. 63 are applicable either as a result of the effective dates or early application.

If the engagement did not meet the above criteria, the reviewer should place an "X" in the box below.

☐ Not applicable

If required or deemed necessary, is there any indication that the firm considered the entity's requirements and agreed on the scope of the engagement with the entity? (GAO ch. 4, par. 5)

Does the language in the auditor's reports conform with professional standards, including references to Government Auditing Standards (GAO, ch. 5, par. 3) and appropriately cover the following for the entity as a whole:

QUES.	Engagement Code								MFC Ref.*
G404									
G405									
G406									
G407									
G408									
G409									
G410									

The internal control structure related matters based solely on the auditor's understanding of the internal control structure and assessment of control risk made as part of the audit of the financial statements (GAO, ch. 5, par. 17) that includes, when appropriate:

The controls that were evaluated? (GAO, ch. 5, par. 17)

The controls for which consideration was limited? (GAO, ch. 5, par. 20)

If applicable, the reasons why no study of internal controls were made? (GAO, ch. 5, pars. 19 and 20)

Reference to a separate letter, if applicable, describing identified nonreportable conditions? (GAO, ch. 5, par. 25)

Which matters are reportable conditions and which of the reportable conditions are material weaknesses? (GAO, ch. 5, par. 23)

Compliance with applicable laws and regulations, including a summary of all material instances of noncompliance and/or instances or indications of illegal acts (SAS No. 63, par. 18, and GAO, ch. 5, par. 5) that includes, when appropriate:

A presentation of a reasonable basis for the auditor's conclusion not to perform tests of compliance and omission of a statement of positive assurance on items tested for compliance with laws and regulations? (SAS No. 63, par. 23 and GAO, ch. 5, par. 6)

Presentation of material instances of noncompliance with laws and regulations in accordance with the guidance in Government Auditing Standards regarding reporting on performance audits and issuance of a report on compliance?

Reference to a separate letter, if applicable, describing immaterial instances of noncompliance? (SAS No. 63, par. 27)

QUES.	Engagement Code								MFC Ref.*
G411									
G412									
G413									
G414									
G415									
G416									
G417									
G418									
G419									
G420									

If appropriate, was the scope section of the reports properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results?

When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal act, or indications of such acts? (SAS No. 63, par. 29)

Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from prior audits that affect current audit objectives? (SAS No. 63, par. 17, fn. 9)

Did the auditor document his communication of those nonreportable conditions in the internal control structure not included in the required reports? (SAS No. 63, pars. 35 and 36 and GAO, ch. 5, par. 25)

If required by contractual obligations, were findings presented in accordance with the guidance in the Government Auditing Standards regarding reporting on performance audits and program result audit?

Do the working papers include a cross-referenced audit program with adequate indexing and cross-referencing to schedules, and are the working papers signed by the preparer? (GAO, ch. 4, par. 22)

QUES.	Engagement Code							MFC Ref.*
G421								
G422								
G423								
G424								
G425								
G426								

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\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

Appendix B—Questions for Use When the Engagement is Subject to the Single Audit Act of 1984

NOTE: Reports mentioned in Appendix B are in addition to those indicated previously in Appendix A.

Does the language in the auditor's reports conform with professional standards, including references to Government Auditing Standards and OMB circular A-128?

Do the Single Audit Act Reports also include:

Auditor's report on the schedule of federal financial assistance? (ASLGU, Ch. 23, par. 18)

Auditor's report on internal controls over federal financial assistance program identifying the entity's internal control structure and those controls designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations including (ASLGU, Ch. 23, par. 24):

The controls that were evaluated?

The controls that were not evaluated?

The material weaknesses identified as a result of the evaluation?

If applicable, the reasons why no study of internal controls was made?

If SAS No. 63 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), are the following reports, where applicable, included (SAS No. 63, App. B):

Major programs—compliance reports:

An opinion that the entity complied, in all material respects, with specific requirements that, if not complied with, could have a material effect on a major federal financial assistance program? (SAS No. 63, par. 73)

QUES.	Engagement Code							MFC Ref.*
G501								
G502								
G503								
G504								
G505								
G506								
G507								
G508								

A statement of positive assurance with respect to the items tested and a statement of negative assurance on those items not tested concerning material instances of noncompliance with the general requirements relating to major programs (SAS No. 63, par. 83)

When appropriate, did the auditor issue either a qualified or adverse report on compliance, which presented material instances of noncompliance with laws and regulations in accordance with the guidance in Government Auditing Standards regarding reporting on performance audits? (SAS No. 63, par. 83f and 72)

Nonmajor programs—compliance report:

A statement of positive assurance with respect to those items tested and negative assurance on those items not tested concerning material instances of noncompliance with specific requirements of nonmajor programs? (SAS No. 63, par. 87)

If SAS No. 63 was not applicable to this engagement, are the following reports, where applicable, included:

Major programs—compliance report:

An opinion that the entity administered each of its major federal financial assistance programs in compliance with laws and regulations, including compliance with laws and regulations pertaining to financial reports and claims for advances and reimbursements? (ASLGU, ch. 23, par. 21)

Nonmajor programs—compliance report:

A statement of positive assurance with respect to those items tested for compliance with laws and regulations, including compliance with laws and regulations pertaining to financial reports and claims for advances and reimbursements? (ASLGU, ch. 23, par. 22)

Negative assurance on those items not tested?

QUES.	Engagement Code							MFC Ref.*
G509								
G510								
G511								
G512								
G513								
G514								

When applicable, does the schedule of findings and questioned costs include the following (ASLGU, ch. 23, par. 16):

A summary of all instances of noncompliance including to the extent available, information as to the conditions found, criteria, effect and cause?

Extent of noncompliance related to the number of cases examined and the dollar amount questioned?

An identification of total amounts questioned, if any, for each financial assistance award, as a result of noncompliance?

Did the auditor, by reviewing contract files and receipts and disbursements, obtain reasonable assurance that the entity appropriately identified all federal financial assistance and included that assistance within the audit scope? (SAS No. 63, par. 46)

Does the schedule of federal financial assistance program expenditures present the following:

Identification of each program as indicated in the Catalog of Federal Domestic Assistance (CFDA)?

Other federal assistance from programs not included in the CFDA?

Total expenditures for each federal financial assistance program by grantor, department, or agency?

Total federal financial assistance?

Other information, either required by federal program managers or otherwise deemed appropriate?

QUES.	Engagement Code							MFC Ref.*
G515								
G516								
G517								
G518								
G519								
G520								
G521								
G522								
G523								

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

Was consideration given to the accounting and auditing guidance issued by the Office of Management and Budget, including Circulars A-128 (Audits of State and Local Governments), A-87 (Cost Principles Applicable to Grants and Contracts), and A-102 (Uniform Requirements for Assistance to State and Local Governments)?

Do the working papers indicate that consideration was given to prior audits of government financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance (SAS No. 63, par. 17, fn. 9 and GAO, ch. 3, par. 41)?

Did the auditor perform the required level of internal control review, to include:

The study and evaluation of those internal control systems, used in administering major federal financial assistance programs, comparable to that which the auditor would perform if he intended to rely on all existing control cycles to restrict the extent of substantive testing? (ASLGU, ch. 21, par. 11)

If warranted, the study and evaluation of the systems, used in administering nonmajor programs, to the same extent as in Question G526 above so that controls over at least 50 percent of total federal financial assistance program expenditures are studied and evaluated? (ASLGU, ch. 21, par. 12)

Perform a preliminary review of internal control for the systems used in administering other non-major federal financial assistance programs? (ASLGU, ch. 21, par. 13)

For those programs where the study and evaluation of internal control systems did not extend beyond the preliminary review phase, do the working papers document:

Procedures used to perform the preliminary review?

Reasons why the review was not extended?

QUES.	Engagement Code								MFC Ref.*
G524									
G525									
G526									
G527									
G528									
G529									
G530									



For the categories of controls for which the full study and evaluation were performed:

Do the working papers document the auditor's understanding of the systems?

Were compliance tests (test of controls if SAS No. 55 was adopted) performed for these systems?

In the judgment of the reviewer, were the nature and extent of compliance tests (tests of controls) sufficient to enable the auditor to determine if the appropriate policies and procedures were being applied as described?

Did the auditor include the recipient's system for ensuring subrecipients' compliance and obtaining and acting on subrecipients' audit reports? (ASLGU, ch. 21, par. 36)

Do the working papers adequately document the work performed and the conclusions reached? (SAS No. 55)

In determining whether the entity complied with applicable laws and regulations that may have a material effect on each major federal financial assistance program, did the auditor:

Consult appropriate sources, such as the Compliance Supplement for Single Audits of State and Local Governments, statutes, regulations, and agreements covering individual programs, in order to identify the specific compliance requirements that apply to each major program and to determine which requirements to test? (SAS No. 63, pars. 49 and 53)

Consider materiality in relation to each major federal assistance program? (SAS No. 63, pars. 47 and 48)

QUES.	Engagement Code							MFC Ref.*
G531								
G532								
G533								
G534								
G535								
G536								
G537								

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

Perform and document tests to determine whether (SAS No. 63, par. 49 and GAO, ch. 4, par. 22):

Select a representative number of charges from each major program? (ASLGU ch. 5, par. 5.5)

The amounts reported as expenditures were allowable under federal regulations and contracts?

Only eligible persons or organizations received services or benefits?

Matching requirements were met?

Federal financial reports and claims for advances and reimbursements were supported by the records supporting the financial statements?

The entity complied with other provisions for which federal agencies have determined that noncompliance could materially affect the program?

Perform and document tests to determine whether the entity complied with each of the general requirements contained in the compliance supplement concerning (SAS No. 63, par. 80 and GAO, ch. 4, par. 22):

Political activity?

Civil rights?

Davis-Bacon Act?

Cash management?

Relocation of assistance and real property acquisition?

Federal financial reports?

QUES.	Engagement Code							MFC Ref.*
G538								
G539								
G540								
G541								
G542								
G543								
G544								
G545								
G546								
G547								
G548								
G549								

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

Consider projected questioned costs from all audit sampling applications and all specifically identified questioned costs? (SAS No. 63, par. 69-71)

Consider whether the tests of compliance with the program's requirements appear adequate to support the report(s) on compliance? (SAS No. 63, par. 20 and GAO, ch. 4, pars. 13 and 14)

Did the auditor properly consider the potential effects of instances of noncompliance and questioned costs in reporting on the entity's financial statements and individual financial assistance programs? (OMB Cir. A-128, Questions and Answers, par. 20)

Where transactions related to non-major federal assistance programs have been selected during other audit procedures, have they been appropriately tested for compliance with the specific requirements that apply to the individual transactions so tested? (SAS No. 63, pars. 85 and 88)

If warranted, did the auditor communicate with the cognizant agency to avoid or minimize any disagreements or problems? (ASLGU, ch. 21, pars. 40 and 41)

Did the auditor submit the report(s) to the organization audited and to those requiring or arranging for the audit within the required time? (GAO, ch. 5, par. 34)

Has the auditor established policies or procedures for complying with the additional requirements concerning (ASLGU, ch. 21, par. 27):

Retaining working papers and reports for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the cognizant agency to extend the retention period?

Making the working papers available upon request to the cognizant agency or its designee or the GAO, at the completion of the audit?

QUES.	Engagement Code							MFC Ref.*
G550								
G551								
G552								
G553								
G554								
G555								
G556								
G557								

## Report and Disclosure Considerations Unique to Not-for-Profit Organizations

### Financial Statements and Footnotes

If the auditor is expressing an opinion on summarized comparative information of the prior period, does the prior period's information contain sufficient detail to constitute a fair presentation in accordance with generally accepted accounting principles? (AU Section 508.76, footnote 27)

QUES.	Engagement Code								MFC Ref.*
N101									
N102									
N103									
N104									
N105									
N106									
N107									
N108									
N109									

If the financial statements represent a component, such as a branch of an existing organization, a separate operation, a separate fund, or a grant, do the financial statements or footnotes disclose the following:

Existence and nature of affiliated or related entities?

Nature and volume of material transactions (individually or in the aggregate) with related entities?

Any allocations of common expenses?

Are related party transactions with noncombined affiliated entities, contributors of restricted funds, board members, officers, and employees adequately disclosed?

If appropriate, are the financial statements prepared on a fund accounting basis and adequate disclosures made of the following:

Unrestricted resources (including all board-designated amounts)?

Resources restricted by the donor?

### Balance Sheet

Is the presentation appropriate and disclosure adequate regarding:

Cash?

Terms or circumstances concerning repurchase or reverse repurchase agreements?

Receivables:

Legally enforceable pledges?

Interfund receivables?

Collections of works of art and similar items?

Fixed Assets:

Purchased fixed assets?

Donated fixed assets?

Accounting for depreciation, including disclosure of depreciation policy for in-exhaustible assets?

Capitalized interest?

Restrictions on use or disposal imposed by donor?

Notes payable and other debt:

Interfund payables?

Activity Statement

Are unrestricted revenues, expenses, and fund balances segregated from restricted items so as to be clearly distinguishable?

If the organization receives significant support from contributions from the general public, are all expenses presented on a functional basis (i.e., indicating costs of each program and activity)?

Does the Activity Statement include all the funds of the organization?

Is the presentation appropriate and disclosure adequate regarding:

Service fees, such as subscription and membership income?

Sales of publications and other items?

Third-party reimbursements of costs of program activities?

QUES.	Engagement Code								MFC Ref.*
N110									
N111									
N112									
N113									
N114									
N115									
N116									
N117									
N118									
N119									
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N122									
N123									
N124									

Investment income?

Capital gains and losses from investments, both realized and unrealized, and the related tax effects, if any?

Contributions?

Donated services, materials and facilities?

Gifts of future interests?

Other gifts, grants, pledges, etc.?

Interfund transfers?

Other revenue or capital additions?

Allocation of functional expenses to programs and services?

Fund raising expenses, including joint costs of informational materials and activities allocated between fund raising and other functional expense categories?

Grants to other organizations?

Remittances to national organizations?

Prior period adjustments?

Additional Financial Statements

For nonprofit organizations accounted for under SOP 78-10, is a statement of changes in financial position or cash flows presented as a basic financial statement for each period for which an activity statement and balance sheet are presented?

For voluntary health and welfare organizations, is a statement of functional expenses presented as a basic financial statement for each period for which an activity statement is presented?

QUES.	Engagement Code								MFC Ref.*
N125									
N126									
N127									
N128									
N129									
N130									
N131									
N132									
N133									
N134									
N135									
N136									
N137									
N138									
N139									

# Report and Disclosure Considerations Unique to Audits of Banks

## Financial Statements and Footnotes

### Balance Sheet

Is the presentation appropriate and disclosure adequate regarding:

Loans?

Allowance for credit losses (shown as a deduction from loans and lease receivables; disclose the method of providing reserves and a reconciliation of the balance)?

Domestic and foreign deposits (separately shown and disclosing interest or non-interest-bearing portions, amounts and maturities of certificates of deposit of \$100,000 or greater, large concentrations and related parties)?

Federal fund purchases, securities sold under repurchase agreements and other short-term borrowings?

Exclusion of trust assets?

Material interest-bearing deposits in other banks (separately disclosed)?

Federal funds sold and securities purchased under resale agreements (presented at gross amounts)?

Trading assets and related futures contracts?

Mortgage loans and mortgage backed securities held for sale?

QUES.	Engagement Code							MFC Ref.*
B101								
B102								
B103								
B104								
B105								
B106								
B107								
B108								
B109								

## II. GENERAL AUDIT PROCEDURES

### Procedures Applicable to All Audit Engagements

In planning the audit engagement, did the auditor properly consider:

Matters affecting the industry in which the entity operates, such as accounting practices, economic conditions, laws and government regulations, and technological changes? (SAS No. 22)

Matters affecting the entity's business, such as organization and types of products and services? (SAS No. 22)

Preliminary judgment about materiality levels for audit purposes? (SAS No. 47)

Anticipated reliance on internal accounting controls? (AU Section 311)

If SAS No. 53 was not applicable to this engagement, conditions that may require extension or modification of audit tests, such as the possibility of material errors or irregularities and management's ability to override controls? (SAS No. 16)

If the auditor succeeded a predecessor accountant did he:

Communicate with the predecessor accountant to ascertain whether there were disagreements between the predecessor accountant and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client?

Make other inquiries of the predecessor accountant on significant matters?

Satisfy himself on the fair presentation of opening balances, such as by reviewing the predecessor accountant's working papers?

If consideration was given to the work of internal auditors in determining the scope of the examination, was it done in accordance with SAS No. 9?

QUES.	Engagement Code							MFC Ref.*
A202								
A203								
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A210								



If the engagement included the use of the work (domestic or international) of another office, correspondent or affiliate:

Do the instructions to the other office or firm appear adequate?

Does it appear that control exercised over the work of others through supervision and review was adequate?

Was there appropriate follow-up of open matters?

In those cases where another firm is used, were appropriate inquiries made as to its independence and professional reputation?

If SAS No. 56 was applicable to the engagement (either as a result of the SAS's effective date or an early application of the SAS) did the auditor use analytical procedures in planning the nature, timing and extent of other audit procedures?

If early application of SAS No. 55 was elected, did the auditor:

Obtain a sufficient understanding of each of the three elements (control environment, accounting system, and control procedures) of the entity's internal control structure to plan the audit?

Document his understanding of each of the three elements of the internal control structure?

Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level?

Document the basis for the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level?

QUES.	Engagement Code								MFC Ref.*
A211									
A212									
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A219									

If early application of SAS No. 55 was elected, and the user auditor has assessed control risk below the maximum for an assertion, and that assessment is dependent upon the application of controls at a service organization, has the auditor obtained and appropriately considered a service auditor's report or performed tests of operating effectiveness at the service organization?

If SAS No. 53 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS) did the auditor:

Make an assessement of the risk of material misstatements of the financial statements, including those resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts?

Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure?

Design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements?

If early application of SAS No. 55 was not elected:

Did the auditor obtain an understanding of the client's accounting system, including the control environment and the flow of transactions?

If after completing the preliminary phase of the review the auditor decided not to rely on the internal accounting control system to restrict substantive tests, were his reasons for deciding not to extend his review documented?

If the auditor decided to rely on the system:

Was there appropriate documentation of the auditor's understanding of the system and the basis for his conclusions about the suitability of its design?

QUES.	Engagement Code								MFC Ref.*
A220									
A221									
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Were adequate tests of compliance with internal control procedures made?

Were deviations noted during compliance testing appropriately evaluated?

Was a final evaluation of internal accounting control documented and considered in the development of the audit program?

If the client used EDP in significant accounting applications, did the study and evaluation of internal controls include both general and application controls over EDP activities, including those, if any, at a service organization? (SAS Nos. 44 and 48)

If the auditor relied on the internal accounting controls at a service organization, was a service auditor's report obtained and appropriately considered? (SAS No. 44)

Was an appropriately tailored, written audit program prepared? (SAS No. 22 and applicable AICPA Industry Audit Guide)

If early application of SAS No. 55 was elected, was the audit program responsive to the needs of the engagement identified and the understanding of the internal control structure obtained during the planning process?

If early application of SAS No. 55 was not elected, was the audit program responsive to the needs of the engagement identified during the planning process and was it developed in light of the strengths and weaknesses of internal control? (SAS No. 1, section 320)

Was consideration given to applicable assertions in developing audit objectives and in designing substantive tests? (SAS No. 31, pars. 9 through 13)

If conditions changed during the course of the examination, was the audit program modified as appropriate in the circumstances?

Have all procedures called for in audit programs been signed?

QUES.	Engagement Code								MFC Ref.*
A227									
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A236									
A237									

If statistical or nonstatistical sampling was used in compliance tests of internal controls (under SAS No. 55, tests of controls) (SAS No. 39, pars. .31 through .42):

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the compliance test, tolerable rate, allowable risk of overreliance, and likely rate of deviations?

Was the sample selected in such a way that it could be expected to be representative of the population?

Were the results of the sample evaluated as to their effect on the nature, timing and extent of planned substantive procedures?

In evaluating the sample, was appropriate consideration given to items for which the planned compliance test or appropriate alternative procedure could not be performed, for example, because the documentation was missing?

Was the documentation of the foregoing considerations in accordance with firm policy?

If statistical or nonstatistical sampling was used for substantive tests of details (SAS No. 39, pars .15 through .30):

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, tolerable error, acceptable level of risk of incorrect acceptance, and characteristics of the population?

Was the sample selected in such a way that it could be expected to be representative of the population?

Were the error results of the sample projected to the items from which the sample was selected?

In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternate procedures could not be performed?

QUES.	Engagement Code								MFC Ref.*
A238									
A239									
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A246									

In the evaluation of whether the financial statements taken as a whole may be materially misstated, was appropriate consideration given, in the aggregate, to projected error results from all audit sampling applications and to all known errors from non-sampling applications?

Was the documentation of the foregoing considerations in accordance with firm policy?

If SAS No. 56 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS) did the auditor:

Consider the guidelines in SAS No. 56 in developing, performing, and evaluating the results of analytical procedures used as substantive tests?

Use analytical procedures in the overall review stage of the audit?

If SAS No. 56 was not applicable to this engagement, were the guidelines of SAS No. 23 considered in the performance of analytical review procedures, including:

Investigating significant fluctuations?

Evaluating the effects of the findings on the scope of the examination?

Has the auditor evaluated the reasonableness of accounting estimates made by management?

Did the auditor obtain a timely and appropriate letter of representation from management? (SAS Nos. 19 and 63)

Did the auditor obtain timely and appropriate responses from the client's attorney concerning litigation, claims, and assessments? (SAS No. 12)

Have all questions, exceptions, or notes, posed during the audit been followed up and resolved?

QUES.	Engagement Code								MFC Ref.*
A247									
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A255									
A256									

Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely errors are considered with likely errors arising in the current period? (SAS No. 47)

If SAS No. 53 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS) did the auditor:

Follow-up on errors and irregularities in accordance with SAS No. 53?

Consider the implications of an irregularity in relation to other aspects of the audit, including the reliability of client representations?

Assure himself that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement?

When the auditor's procedures disclosed instances or indications of illegal acts and SAS No. 54 and/or 60 were applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor:

Follow up on illegal acts having a direct and material effect on the financial statements in accordance with SAS No.54, par. 5?

Follow up on all other illegal acts in accordance with SAS No. 54, par. 7?

Consider the implications of a detected illegal act in relation to other aspects of the audit, including the reliability of client representations?

Assure himself that the audit committee or others with equivalent authority and responsibility had been adequately informed with respect to all but clearly inconsequential illegal acts identified during the audit?

QUES.	Engagement Code								MFC Ref.*
A257									
A258									
A259									
A260									
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Communicate directly with the audit committee if the illegal act involved senior management and document that communication?

If SAS Nos. 53 and 54 were not applicable to this engagement, were errors, irregularities, or illegal acts, if any, followed up in accordance with SAS Nos. 16 and 17?

If SAS No. 59 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time?

If SAS No. 60 was not applicable to this engagement, were material weaknesses, if any, in internal control communicated to senior management and the board of directors or its audit committee? (SAS No. 20)

Were reports on internal control prepared in accordance with SAS Nos. 20 and 30?

If SAS No. 60 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS:

Did the auditor communicate reportable conditions to the audit committee or others with equivalent authority and responsibility?

If the communication was in writing, did the report include all elements required by SAS No. 60?

If the communication was oral, did the auditor document the communication in the working papers?

If there is an indication that the auditor, subsequent to the date of his report, became aware that facts may have existed at that date which might have affected his report, had he then been aware of such facts, did he consider the guidance in SAS No. 1, section 561, in determining an appropriate course of action, and does the matter appear to be properly resolved?

QUES.	Engagement Code								MFC Ref.*
A265									
A266									
A267									
A268									
A269									
A270									
A271									
A272									
A273									

If there is an indication that the auditor, subsequent to the date of his report, concluded that one or more auditing procedures considered necessary at the time of the audit in the then existing circumstances were omitted from his audit of the financial statements, did he consider the guidance in SAS No. 46 (AU section 390) in determining an appropriate course of action, and does the matter appear to be properly resolved?

QUES.	Engagement Code								MFC Ref.*
A274									
A275									
A276									
A277									

If SAS No. 61 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor:

Assure himself that the appropriate matters have been communicated to those who have responsibility for oversight of the financial reporting process (SAS No. 61, pars. 6 through 14)?

If the communication was in writing, prepare a written report that includes a statement that the communication is intended solely for the use of the audit committee or the board of directors and, if appropriate, management?

If the communication was oral, document the information communicated by appropriate memorandum or notations in the working papers?

#### Procedures Unique to Audits of State or Local Governmental Entities

In planning the audit engagement, did the auditor properly consider:

Definition of the reporting entity indicating the related organizations, functions, and activities which are either included or excluded from the financial statements in accordance with GASB Cod. 2100?

Factors affecting the continued functioning of the government, such as legal limitations on revenue, expenditures, or debt service?

QUES.	Engagement Code								MFC Ref.*
G250									
G251									



For a jointly signed audit report, are there indications that the auditor has conducted sufficient audit procedures to warrant signing the report in an individual capacity? (ASLGU, Ch. 18, par. 42)

Was a written audit program prepared?

If applicable, were adequate tests of compliance with applicable laws and regulations that have a material effect on the financial statements performed and documented? (SAS No. 63, pars. 15 and 20)

If evidence exists of situations or transactions that could be indicative of fraud, waste, abuse and illegal expenditures and acts, did the auditor:

Either obtain management's approval to extend audit steps and procedures to identify the effect on the entity's financial statements or consider issuing a disclaimer of opinion because of a scope limitation and disclose any reservations regarding compliance with applicable laws and regulations?

Give prompt notice to the appropriate management officials of the recipient above the level of involvement?

Were all material instances of weaknesses in internal controls and all identified instances of noncompliance with applicable laws and regulations:

Adequately evaluated and documented?

Appropriately reported in accordance with applicable standards? (SAS No. 20, GAO's Standards for Audit, pp. 28-29 and OMB A-128, par. 13)

QUES.	Engagement Code							MFC Ref.*
G252								
G253								
G254								
G255								
G256								
G257								
G258								

#### Procedures Unique to Audits of Not-For-Profit Organizations

Was an appropriately tailored, written audit program prepared? (SAS No. 22 and applicable AICPA Industry Audit Guides)

QUES.	Engagement Code							MFC Ref.*
N201								

Have all questions, exceptions, or notes, posed during the audit been followed up and resolved including consideration of the views obtained from responsible officials of the organization, program, activity, or function audited concerning the auditor's findings, conclusions, and recommendations?

If the audit was required to be conducted in accordance with Government Auditing Standards, does the language in the auditor's reports conform with professional standards, including references to Government Auditing Standards (GAO, ch. 5, par. 3), and appropriately cover the following for the entity as a whole:

The financial statements, including, where presented, the combining and individual fund financial statements?

The internal control structure related matters based solely on the auditor's understanding of the internal control structure and assessment of control risk made as part of the audit of the financial statements (GAO, ch. 5, par. 17) that includes, when appropriate:

The entity's significant internal accounting controls and those controls designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations? (GAO, ch. 5, par. 17)

The controls that were evaluated? (GAO, ch. 5, par. 17)

The controls that were not evaluated? (GAO, ch. 5, par. 20)

If applicable, the reasons why no study of internal controls was made? (GAO, ch. 5, pars. 19 and 20)

A presentation of reportable conditions in accordance with the guidance in Government Auditing Standards, Chapter 7, regarding reporting on performance audits? (GAO, ch. 5, par. 23)

QUES.	Engagement Code							MFC Ref.*
N202								
N301								
N302								
N303								
N304								
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Reference to a separate letter describing identified nonreportable conditions? (GAO, ch. 5, par. 25)

Compliance with applicable laws and regulations, including a summary of all material instances of noncompliance and/or instances of illegal acts (SAS No. 63, par. 28, and GAO, ch. 5, par. 5) that includes, when appropriate:

A presentation of reasonable basis for the auditor's conclusion not to perform tests of compliance and omission of a statement of positive assurance on items tested for compliance with laws and regulations? (SAS No. 63, par. 23, and GAO, ch. 5, par. 6)

A presentation of material instances of non-compliance with laws and regulations in accordance with the guidance in Government Auditing Standards regarding reporting on performance audits and issuance of either a qualified or adverse report on compliance?

A reference to a separate letter describing immaterial instances of noncompliance? (SAS No. 63, par. 27)

Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from prior audits that affect current audit objectives? (SAS No. 63, par. 17, fn. 9)

When appropriate, did the auditor issue a report on fraud, abuse, or an illegal act, or indications of such acts to the entity arranging the audit? (SAS No. 63, pars. 28 and 29 and GAO, ch. 5, par. 13 and 16)

When appropriate, was the scope section of the report properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results? (GAO, ch. 3, par. 27)

If required or deemed necessary, is there any indication that the firm considered the entity's audit requirements and agreed on the scope of the engagement with the entity? (GAO, ch. 4, par. 5)

QUES.	Engagement Code							MFC Ref.*
N309								
N310								
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By reviewing contract files and receipts and disbursements, did the auditor obtain reasonable assurance that the entity appropriately identified all federal financial assistance and laws and regulations and included those matters within the audit scope? (SAS No. 63, par. 8)

Do the working papers indicate that consideration was given to prior audits of government financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance? (SAS No. 63, par. 17, fn. 9 and GAO, ch. 3, par. 41)

For those programs where the study and evaluation of internal control systems did not extend beyond the preliminary review phase, do the working papers document (GAO, ch. 5, pars. 19 and 20):

Procedures used to perform the preliminary review?

Reasons why the review was not extended?

For the systems for which the full study and evaluation were performed (SAS No. 63, par. 15 and SAS No. 55):

Do the working papers document the auditor's understanding of the systems?

Were tests of controls performed for these systems?

In the judgment of the reviewer, were the nature and extent of tests of controls sufficient to enable the auditor to determine if the appropriate policies and procedures were being applied as described?

Do the working papers adequately document the work performed and the conclusions reached? (GAO, ch. 4, par. 27)

Did the auditor document his communication of nonreportable conditions in the internal control structure that were not included in the required reports? (SAS No. 63, pars. 35 and 36 and GAO, ch. 5, par. 25)

QUES.	Engagement Code							MFC Ref.*
N318								
N319								
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N323								
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N326								

Were all material instances of weaknesses in internal controls and all identified instances of noncompliance with applicable laws and regulations adequately evaluated and documented?

If applicable, were adequate tests of compliance with applicable laws and regulations that have a direct and material effect on the financial statements performed and documented? (SAS No. 63, pars. 15 and 20)

If evidence exists of situations or transactions that could be indicative of fraud, waste, abuse, or illegal acts (SAS No. 16 and 17), did the auditor:

Either obtain management's approval to extend audit steps and procedures to identify the effect on the entity's financial statements or consider issuing a disclaimer of opinion because of a scope limitation?

Give prompt notice to the appropriate management officials of the entity arranging the audit?

Was interfund activity properly reviewed and were differences between total interfund receivables and total interfund payables investigated and resolved?

Did the auditor submit the reports to the organization audited and to those requiring or arranging for the audit within the required time? (GAO, ch. 5, par. 32)

Has the auditor established policies or procedures for complying with the additional requirements concerning retaining working papers and reports and making the working papers available upon request to the cognizant agency or its designee or the GAO at the completion of the audit? (GAO, ch. 4, pars. 21 and 22)

If the audit was required to be conducted in accordance with the GAO's Standards for Audit, do the auditor's report(s) include references to GAO's Standards for Audit, and appropriately cover:

QUES.	Engagement Code							MFC Ref.*
N327								
N328								
N329								
N330								
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N332								
N333								

The financial statements, including, where presented, the combining and individual fund financial statements?

Internal accounting control based solely on a study and evaluation made as part of the audit of the financial statements?

Compliance with finance-related legal and contractual provisions including a summary of questioned costs and/or instances of non-compliance?

When appropriate, did the auditors issue a report on fraud, abuse, or an illegal act, or indications of such acts, to the entity arranging the audit?

When appropriate, was the scope section of the report properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results?

If required, did the auditor's report on internal control (accounting and administrative) identify:

The entity's significant internal accounting controls and those controls designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations?

The controls that were evaluated?

The controls that were not evaluated?

The material weaknesses identified as a result of the evaluation?

If required, did the auditor's report on compliance include:

A statement of positive assurance with respect to those items tested for compliance with laws and regulations pertaining to financial reports?

Negative assurance on those items not tested?

QUES.	Engagement Code								MFC Ref.*
N601									
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A summary of material instances of non-compliance?

If required by contractual obligations, were findings presented in accordance with the guidance in the GAO's Standards for Audit regarding reporting on economy and efficiency audits and program results audits?

Was interfund activity properly reviewed and were differences between total interfund receivables and total interfund payables investigated and resolved?

If applicable, were adequate tests of compliance with applicable laws and regulations made?

If evidence exists of situations or transactions that could be indicative of fraud, waste, abuse or illegal expenditures and acts, did the auditor:

Either obtain management's approval to extend audit steps and procedures to identify the effect on the entity's financial statements or consider issuing a disclaimer of opinion because of a scope limitation?

Give prompt notice to the appropriate management officials of the entity arranging the audit?

Were all material instances of weaknesses in internal controls and all identified instances of noncompliance with applicable laws and regulations:

Adequately evaluated and documented?

Appropriately reported in accordance with applicable standards? (SAS No. 20 or 60, GAO's Standards for Audit, pp. 28-29 and OMB A-110, Attachment F)

Do the working papers indicate that consideration was given to prior audits of government financial assistance programs that disclosed questionable or disallowed costs, or instances of noncompliance?

QUES.	Engagement Code							MFC Ref.*
N612								
N613								
N614								
N615								
N616								
N617								
N618								
N619								
N620								

### III. WORKING PAPER AREAS

#### Working Paper Areas Applicable to All Audit Engagements

##### Cash

Were bank accounts confirmed at the examination date and were reconciling items existing at the balance sheet date cleared by reference to subsequent statements obtained directly from the bank (or obtained from the client and appropriately tested)?

Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine that transactions were recorded in the proper period?

Do the working papers indicate that the following were considered:

Restrictions on cash balances?

Confirmation of bank credit arrangements such as compensating balances?

Confirmation of liabilities and contingent liabilities to banks?

Based on the evaluation of internal control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of cash appear adequate?

##### Receivables

Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternate procedures?

If confirmation work was performed prior to year-end, is there evidence that there was an adequate review of transactions from the confirmation date to the balance sheet date?

If a significant number and amount of accounts receivable were not confirmed, is there evidence that other auditing procedures were performed?

QUES.	Engagement Code							MFC Ref.*
A301								
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Were significant notes receivable confirmed as of the balance sheet date?

Were the results of confirmation and alternative procedures summarized and were appropriate conclusions drawn in the working papers?

Was collateral (if any) for receivables examined with respect to existence, ownership and value?

Were adequate tests of discounts and allowances made?

Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered?

Was there evidence in the working papers that inquiry was made and consideration given to whether receivables are sold, pledged, assigned or otherwise encumbered?

Was receivable work coordinated with the tests of support and revenue, including cut-off tests?

Were procedures performed to verify whether the carrying value of notes receivable reflects the present value of the consideration given and the appropriate interest rate?

Based on the evaluation of internal control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of receivables appear adequate?

### Inventories

Where the physical inventory is taken at a date other than the balance sheet date (or where rotating procedures are used), do the working papers indicate that consideration was given to inventory transactions between the inventory date(s) and the balance sheet date?

Do the working papers contain evidence that counts were correctly made and recorded (i.e., was control over inventory tags or count sheets maintained and were test count quantities reconciled with counts reflected in final inventory)?

QUES.	Engagement Code								MFC Ref.*
A310									
A311									
A312									
A313									
A314									
A315									
A316									
A317									
A318									
A319									
A320									

Were physical inventories observed at all locations where relatively large amounts are located?

Where the physical inventory in the hands of others was not observed, were inventory confirmations received [i.e., inventory in public warehouses (SAS No. 43), on consignment, etc.]?

If perpetual inventory records are maintained, do the working papers indicate that differences disclosed by the client's physical inventory (or cycle counts) are properly reflected in the accounts?

Do the working papers indicate that there were adequate tests of:

The clerical accuracy of the compilation of the inventory?

Costing methods and substantiation of costs used in pricing all elements (raw materials, work in process, finished goods) of the inventory?

Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?

Where LIFO is used, did the auditor consider whether the client's LIFO techniques are generally consistent with those in the AICPA's issues paper on LIFO?

Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?

Were inquiries concerning purchase and sales commitments made, including consideration as to any possible adverse effects?

Were appropriate inventory cut-off tests performed?

Where applicable, were gross profit percentage tests employed to check overall valuation of inventories?

QUES.	Engagement Code								MFC Ref.*
A321									
A322									
A323									
A324									
A325									
A326									
A327									
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A329									
A330									
A331									

Do the working papers indicate that steps were performed to determine if any inventory is pledged?

Based on the evaluation of internal control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of inventory appear adequate?

### Investments

Was a summary schedule prepared (or obtained) and details examined with respect to description, purchase price and date, changes during period, income, market value, etc. of investments?

Were all securities either examined or confirmed?

Were realized gains and losses on disposition of securities properly computed?

Do the working papers reflect consideration of the appropriateness of carrying values of securities and their classification?

Were investigation of carrying value and possible cost impairment of long-term investments made?

Do the working papers reflect consideration that investments were pledged, restricted, or had limitations on their immediate use?

For investments accounted for on the equity method, were financial statements and other information reviewed to support the amounts presented or the footnote disclosures made?

For repurchase and reverse repurchase agreements, were appropriate audit procedures performed (e.g., confirmation, inspection of collateral)?

### Prepaid Expenses, Intangible Assets, Deferred Charges, etc.

Were adequate tests made and/or confirmations received for all material:

Prepaid expenses?

QUES.	Engagement Code								MFC Ref.*
A332									
A333									
A334									
A335									
A336									
A337									
A338									
A339									
A340									
A341									
A342									

Intangible assets?

Deferred charges?

Other?

Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?

Were reviews made of the continuing value of goodwill and other intangible assets?

If insurance policies were pledged as collateral or subjected to premium financing, were the related loans properly accounted for?

Property, Plant and Equipment

Was a summary schedule prepared (or obtained) to show beginning balances, changes during the period and ending balances for:

Property, plant and equipment?

Accumulated depreciation?

Do tests appear adequate and were proper conclusions drawn with respect to:

Additions (by the examination of support-documents and/or physical inspection)?

Retirements, etc. (including examination of miscellaneous income, scrap sales)?

The adequacy of current and accumulated provisions for depreciation and depletion?

Status of idle facilities?

Do the working papers indicate that the auditor considered the possibility that property was subject to liens?

Based on the evaluation of internal control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the

QUES.	Engagement Code							MFC Ref.*
A343								
A344								
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A352								
A353								
A354								
A355								

substantive tests of property, plant and equipment appear adequate?

### Liabilities

Were accounts payable adequately tested for propriety?

Were liabilities properly classified as current or long-term at the balance sheet date?

Was an adequate search performed for unrecorded liabilities at the balance sheet date?

Was the payable work coordinated with the testing of the purchases cut-off?

Was consideration given to expenditures and expenses that might require accrual (e.g., pensions, compensated absences), and to whether accrued expenses were reasonably stated?

Were significant notes and bonds payable, together with interest rates, repayment periods, etc. confirmed?

Were procedures performed to verify whether the carrying value of notes payable reflects the present value of the consideration received and the appropriate interest rates?

Is there evidence of testing of the company's compliance with covenants to debt obligations?

Based on the evaluation of internal control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of liabilities appear adequate?

### Deferred Credits

Do the working papers indicate that:

The basis of deferring income is reasonable and on a consistent basis from year to year?

Deferrals have been established on a reasonable basis?

QUES.	Engagement Code								MFC Ref.*
A356									
A357									
A358									
A359									
A360									
A361									
A362									
A363									
A364									
A365									
A366									
A367									

## Income Taxes

Were the current and deferred tax accrual accounts and related provisions analyzed and appropriate auditing procedures performed?

Do the working papers contain evidence that, in determining the adequacy of the income tax accruals and provisions, appropriate consideration was given to possible adjustments required for:

Tax positions taken by the client that might be challenged by the taxing authorities and/or other tax contingencies?

Possible assessments, penalties or interest including similar adjustments applicable to years not yet examined?

Based upon the review of the financial statements and working papers and, if necessary, discussions with engagement personnel, does it appear as though substantive tax matters applicable to this engagement were given adequate consideration?

## Commitments and Contingencies

Do the working papers include indication of the following:

Inspection of minutes of meetings of the stock holders, board of directors, and executive and other committees of the board?

Inspection of contracts, loan agreements, leases, and correspondence from taxing and other governmental agencies, and similar documents?

Accumulation and analysis of confirmation responses from banks and lawyers?

Inquiry and discussion with management including management's written representations concerning liabilities, litigation, claims, assessments and regulatory requirements as applicable?

QUES.	Engagement Code								MFC Ref.*
A368									
A369									
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A372									
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A374									
A375									

Other contingent liabilities (such as buy/sell agreements) for possible guarantees?

Is there indication that procedures were performed to uncover the need for recording or disclosure of events subsequent to the date of the financial statements? (SAS No. 1, sections 560.10, 560.11 and 560.12)

Have all material contingencies been properly considered, documented, and reported? (SFAS Nos. 5 and 16)

### Capital Accounts

Were changes in capitalization checked to authorizations?

Do the working papers indicate that there were adequate inquiries where appropriate, about stock options, warrants, rights, redemptions and conversion privileges?

### Income and Expenses

Were tests of payrolls, including account distribution, made?

Concerning pension and profit sharing plans (including impact of ERISA), do tests made of the expenses and liabilities appear adequate?

Were revenue and expenditures and/or expenses for the period compared with those of the preceding period and reviewed for reasonableness and were variances and significant fluctuations explained?

Was adequate consideration given to:

The client's revenue recognition policy?

Income recognition on transactions where the earnings process was not complete?

Unusual sales transactions?

Income recognition when the right of return exists?

QUES.	Engagement Code								MFC Ref.*
A376									
A377									
A378									
A379									
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A382									
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A384									
A385									
A386									
A387									

Based upon the evaluation of internal control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, did the substantive tests (review, analysis, and testing) of revenue and expenditures/expenses appear adequate?

Other

Have leases been reviewed to determine that capital, sales, and direct financing leases have been properly accounted for?

Were appropriate procedures applied to supplementary information?

Limited Review of Interim Financial Information:

Were appropriate procedures performed? (SAS No. 36, pars. 6 and 9 through 15)

If required by firm policy, was a checklist of the above procedures used?

If the work of a specialist was used, did the auditor apply the guidance in SAS No. 11, pars. 9 through 12?

Were specific procedures for determining the existence of related parties and examining identified related party transactions applied? (SAS No. 45)

If consolidated statements are presented:

Have intercompany balances and transactions been eliminated?

If the financial reporting periods of one or more subsidiaries differ from that of the parent, was recognition given to the effect of intervening events that materially affect financial position or the results of operations?

Was appropriate consideration given to the carrying value of long-term contracts in relation to their contract prices, estimated costs to complete, and degree of completion?

QUES.	Engagement Code							MFC Ref.*
A388								
A389								
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A391								
A392								
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A395								
A396								
A397								



Was appropriate consideration given to the accounting for (including the disclosure of) futures, forwards, and standby contracts?

QUES.	Engagement Code								MFC Ref.*
A398									

## Working Paper Areas Unique to Audits of State or Local Governmental Entities

### Cash

Do the working papers indicate that the following were considered:

Approval of interfund cash transactions?

Verification of collateral required of depository institutions for public funds?

Compliance with the laws and regulations governing the deposit of public funds?

Determination that all cash accounts have been identified and appropriately recorded?

Review of repurchase security transactions for consistency with the disclosures on the terms or circumstances of the transactions?

QUES.	Engagement Code								MFC Ref.*
G301									
G302									
G303									
G304									
G305									
G306									
G307									
G308									

### Receivables

Were procedures performed to provide evidence that taxes receivable and the related revenues have been recorded in the correct period?

### Inventories

Do the working papers indicate that there were adequate tests of:

Physical observation, if material?

### Investments

For joint venture investments (accounted for on the equity or other method), were financial statements and other information reviewed to support the amounts presented and the related footnote disclosures?

Was a review made to determine whether the investments are of the types authorized by law or comply with the applicable statutes and investment policies?

Were income, gains and losses from investments examined for proper allocation to the individual funds?

#### Fixed Assets

Was a review made to determine that capital expenditures are classified in the proper fund accounts and made in accordance with budgetary requirements?

#### Liabilities

Were procedures performed to determine whether deferred compensation plans are appropriately disclosed? (GASBS No. 2)

Was an examination made to determine that:

New debt issues are properly issued as required by the state constitution or state/local statute and are recorded in the correct fund and/or account group?

Debt restrictions, guarantees and other debt commitments are properly disclosed?

Do the tests of interfund borrowings appear adequate with respect to:

Legal restrictions, if any, on such borrowings?

Authorization?

Classification?

Appropriateness of interest accruals and payments?

#### Deferred Revenue

Was consideration given to matching requirements, if any?

QUES.	Engagement Code							MFC Ref.*
G309								
G310								
G311								
G312								
G313								
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G318								
G319								

### Commitments and Contingencies

Do the working papers include indication of the following:

Consideration of prior audits of federal financial assistance programs that disclosed questionable or disallowed costs, or instances of noncompliance?

Inspection of long-term contracts with non-governmental entities, such as construction contractors?

### Fund Equity

Where appropriate, were authorizations of changes in reserves and designated balances examined?

Do the working papers indicate that there were appropriate inquiries, where applicable, as to proper classification, description and disclosures of components of fund equity?

Do the working papers indicate that fund transfers were properly approved and recorded?

### Revenues and Expenditures/Expenses

Do the working papers indicate that revenues and interfund transactions have been recognized in the accounting period in which they became available and measurable under the applicable basis of accounting?

Do the working papers indicate that the auditor considered the effect of program income on federal grants and any related activities?

Has it been determined that:

Expenditures are in accordance with the approved budget as to amounts and purpose?

Encumbrances are properly identified, supported and recorded?

Indirect cost allocations are in accordance with OMB A-87?

QUES.	Engagement Code							MFC Ref.*
G320								
G321								
G322								
G323								
G324								
G325								
G326								
G327								
G328								
G329								

If the entity is reimbursed by a third party for costs incurred in connection with providing services to others:

Were pertinent sections of significant third-party contracts reviewed to determine the basis for reimbursement?

Were cost reimbursement reports and the underlying support reviewed?

Were appropriate allocations made of indirect costs among the entity's programs?

Was the effect of audits, either required or performed by third party grantors, considered?

If grants are awarded to other organizations, did the auditor review:

The classification of the grants?

The effects of the grantees' compliance or noncompliance with performance requirements?

QUES.	Engagement Code								MFC Ref.*
G330									
G331									
G332									
G333									
G334									
G335									

### Working Paper Areas Unique to Banks

#### General

Do the engagement planning and audit working papers consider apparent fraud and insider abuse and the results of inquiries, readings, excerpts or other evidence of an understanding of regulatory examinations, their findings and actions?

Did the engagement team consider the risks to the bank of possible violations of regulations such as the following:

Bank Secrecy Act?

Legal lending limit regulations and interest rates charged?

Affiliated party transaction regulations?

Current minimum capital ratio requirements?

QUES.	Engagement Code								MFC Ref.*
B301									
B302									
B303									
B304									
B305									

### Director's Examinations

Procedures may be limited in a director's examination; therefore, were the following considered:

Clearly setting forth in the engagement letter, in advance, the nature and extent of procedures?

State regulations and requirements in the determination of audit scope?

Compliance with the provisions of SAS No. 35, if the examination consisted of performing certain agreed-upon procedures?

### Trust Operations

Were the audit procedures directed to uncover the existence of contingent liabilities arising from trust department operations and the bank's fiduciary responsibilities?

### Loans

Did the loan evaluation consider or include:

The banks lending policies and procedures, including its control over loan file documentation and maintenance?

The qualifications of the bank loan officers?

The effectiveness of the bank's internal audit and loan review program?

The results of prior years examinations and industry statistics?

Loan loss experience and charge-off policy?

The relative degrees of risk inherent by type of loan; considering, for example, if loans are unsecured, associated with depressed areas or industries, highly concentrated and exposed to political, geographic or economic risks?

Participation purchased or sold?

Over drafts?

QUES.	Engagement Code							MFC Ref.*
B306								
B307								
B308								
B309								
B310								
B311								
B312								
B313								
B314								
B315								
B316								
B317								

QUES.	Engagement Code								MFC Ref.*
Related party transactions?	B318								
The extent to which loan renewals and extensions are used to maintain loans on a current basis?	B319								
Appraisals obtained on foreclosures, including the qualifications, independence and findings of the appraisers?	B320								
The use of watch lists, delinquency reports and other sources of potential problems including troubled debt restructurings and in-substance foreclosures?	B321								
Did the work include the review of individual loan files including borrowers financial statements, evidence of collateral and cash flow information?	B322								
In the loan area has the audit team given adequate consideration to:									
Testing executed notes, loan applications, financial statements of borrowers, chattels, other credit information and approvals?	B323								
Confirmation with bank customers?	B324								
Proper accounting recognition of unearned income, interest income, points, recognition of acquisition and other fees and requirements of FAS No. 91?	B325								
The relationship of the total interest income yield, calculated through the comparison of total interest income to average loan balance, to interest rates in effect for the period.	B326								
Was an appropriate evaluation of the adequacy of the allowance for loan losses and the selection of loans to be evaluated, documented and then performed?	B327								
<u>Real Estate and Other Assets</u>									
If real estate or other assets acquired through foreclosure are significant to the client, were:									
Carrying values at the time of foreclosure evaluated and properly classified in the financial statements?	B328								

Continuing carrying values assessed,  
including those for in-substance foreclosures?

Loans restructured by the client properly  
recorded under the principles of FAS No. 15?

In-substance foreclosures reviewed to deter-  
mine that they were accounted for as troubled  
debt restructurings?

QUES.	Engagement Code								MFC Ref.*
B329									
B330									
B331									

### Working Paper Areas Unique to Audits of Not-For-Profit Organizations

#### Cash

Do the working papers indicate that the following  
were considered:

Authorization for interfund cash transactions?

Determination that all cash accounts have  
been identified and appropriately recorded?

#### Receivables

Were procedures performed to provide evidence  
that pledged receivables are properly recorded in  
the appropriate funds?

#### Inventories

Do the working papers indicate that there were  
adequate tests of:

Physical observation, if material?

#### Investments

When investments are held by an outside custo-  
dian, who is authorized by the client to execute  
transactions without specific authorizations of  
individual transactions, did the auditor consider  
the guidance in SAS No. 44, par. 16?

Do the working papers reflect consideration of  
changes in the carrying value of marketable  
securities and other instruments and the  
appropriateness of unrealized gains and losses  
that were recognized?

QUES.	Engagement Code								MFC Ref.*
N401									
N402									
N403									
N404									
N405									
N406									

Do the working papers indicate tests of unit market value calculations of pooled investment funds, including the propriety of handling additions to and withdrawals from the pool?

Were income and realized and unrealized gains and losses from investments examined for proper allocation to the individual funds?

Do the working papers indicate that consideration was given to indications that investments were pledged, restricted, or had limitations on immediate use?

Do the working papers indicate that risk of loss on repurchase agreements was properly considered?

Do the working papers indicate that repurchase security transactions were reviewed for consistency with the disclosures of the terms or circumstances of the transactions?

#### Collections of Works of Art and Similar Items

If the collection has been capitalized, do the working papers indicate that the auditor tested the reasonableness of the collection's carrying value?

If a capitalized collection is considered exhaustible, do the working papers indicate that the auditor tested the reasonableness of the related amortization?

Whether or not a collection was capitalized, are the tests adequate with respect to acquisitions and deaccessions?

If the collection is capitalized:

Were physical inventories observed at all locations where relatively large amounts are located?

QUES.	Engagement Code								MFC Ref.*
N407									
N408									
N409									
N410									
N411									
N412									
N413									
N414									
N415									



Do the working papers contain evidence that counts were correctly made and recorded (i.e., was control over inventory tags or count sheets maintained and were test count quantities reconciled with the quantities reflected in the final inventory)?

If the collection is considered inexhaustible and has not been capitalized, do the working papers indicate that the auditor:

Evaluated the internal controls over the collection?

Observed a physical inventory at all locations where relatively large amounts are located?

#### Property and Equipment

Do tests appear adequate with respect to:

Valuation of assets not previously capitalized?

Was a review made to determine that capital expenditures are classified in the proper fund accounts?

#### Liabilities

Were procedures performed to determine whether tax deferred annuity plans are appropriately calculated to conform with GAAP and IRS regulations?

Were procedures performed to verify the completeness and reasonableness of transactions recorded in mandatory sinking funds and other types of debt-related reserve funds?

Is there evidence that the release of funds from these reserves was tested and appropriately recorded in the financial statements?

Was consideration given to any liabilities (including the effect of any timing differences) resulting from the Federal excise tax on investment income of private foundations and any Federal and State taxes on unrelated business income?

QUES.	Engagement Code							MFC Ref.*
N416								
N417								
N418								
N419								
N420								
N421								
N422								
N423								
N424								

Do the tests of interfund borrowings appear adequate with respect to:

Legal restrictions, if any, on such borrowings?

Authorization?

Classification?

Collectibility of amounts due from other funds?

Appropriateness of interest accruals and payments?

#### Deferred Revenue

Do the working papers indicate that consideration was given to whether the basis of deferring revenue is reasonable and consistent with the donors' or grantors' restrictions?

Was consideration given to matching requirements, if any?

Do the working papers indicate that consideration was given to the appropriateness of the amounts of restricted gifts, grants, bequests, donations, or other income recognized as current revenue or support?

#### Commitments and Contingencies

Did the auditor consider evidence of the entity's activities (such as lobbying) which might cause the entity to lose its tax exempt status or be subject to penalties or taxes?

If the entity is a private foundation, as defined by IRC section 509, did the auditor determine whether the entity complied with IRS regulations concerning required distribution of income and prohibited activities?

Has adequate consideration been given to loss contingencies in accordance with SFAS No. 5?

#### Fund Balance

Where appropriate, were authorizations of changes in reserves and designated balances examined?

QUES.	Engagement Code							MFC Ref.*
N425								
N426								
N427								
N428								
N429								
N430								
N431								
N432								
N433								
N434								
N435								
N436								

Do the working papers indicate that there were adequate inquiries, where appropriate, as to proper classification, description and disclosure of components of the fund balance?

Do the working papers indicate that fund transfers were properly approved and recorded?

If an endowment fund is maintained, do the working papers indicate that fund income is distributed to unrestricted and restricted funds in accordance with donors' stipulations?

#### Revenues, Expenses, Support, and Capital Additions

Do the working papers indicate that consideration was given to the valuation and classification of revenue derived from service fees, such as subscription and membership income, and sales of publications and other items?

If the entity is reimbursed by a third party for costs incurred in connection with providing services to others:

Were pertinent sections of significant third-party contracts reviewed to determine the basis for reimbursement?

Were cost reimbursement reports and the underlying support reviewed?

Were appropriate allocations made of indirect costs among the entity's programs?

Do the working papers indicate that the auditor considered actual receipt of, propriety of, valuation method used for, and any restrictions placed on amounts received during the current period from:

Cash contributions?

Donated services?

Gifts of securities, materials, facilities, and other nonmonetary items?

Future interests and interest free loans?

QUES.	Engagement Code							MFC Ref.*
N437								
N438								
N439								
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N445								
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N447								

If expenses are classified by function, did the auditor adequately test the classifications and allocations?

If joint costs of multipurpose activities are incurred, were the requirements of SOP 87-2 appropriately considered?

Were fundraising costs expensed in the proper period and in the proper fund?

If grants are awarded to other organizations, did the auditor review:

The classification of the grants?

The effects of the grantees' compliance or noncompliance with performance requirements?

With regard to pension plans, do the tests made of the expense and liabilities appear adequate?

Other

If the entity is affiliated with or otherwise financially related to other entities, did the auditor consider the need for combined financial statements or disclosure of the relationship?

QUES.	Engagement Code								MFC Ref.*
N448									
N449									
N450									
N451									
N452									
N453									
N454									

#### IV. FUNCTIONAL AREAS

##### Independence

If any evidence was noted during the review that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered?

Have personnel been appropriately advised as to the need to observe independence requirements concerning the client and any other related non-client parent, investor, investee, subsidiary or affiliate?

Was timely and appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity?

For non-SEC clients, were the fees for the prior year's services paid prior to issuance of the report for the current engagement?

For SEC clients, if the fees for the prior year's services were not paid prior to the commencement of the current engagement, were the SEC rules for unpaid professional fees adhered to?

##### Assigning Personnel to Engagements

Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel?

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided?

##### Consultation

Was there appropriate consultation and documentation:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it?

Were the firm's conclusions consistent with professional standards?

QUES.	Engagement Code							MFC Ref.*
A501								
A502								
A503								
A504								
A505								
A506								
A507								
A508								
A509								
A510								

If the engagement records indicated a difference of opinion between engagement personnel and a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented?

### Supervision

Were appropriate and knowledgeable engagement personnel involved in the planning process?

Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan?

Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey his approval or modifications to the engagement staff?

Does it appear that hours charged by the partner, manager, and, where applicable, by the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed?

Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

Review of internal control structure:

Manual system?

EDP system?

Audit work programs?

Financial statement disclosures?

Working papers and financial statement reviews?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?

QUES.	Engagement Code								MFC Ref.*
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A519									
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Were the firm's guidelines for the form and content of audit working papers complied with?

Were differences of professional opinion between engagement personnel resolved in accordance with firm policy?

If used, were scientific audit tools (e.g., computer auditing, statistical sampling, etc.) properly evaluated by persons with training in these areas? (SAS No. 48)

If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that work performed was complete and conformed to professional standards and firm policy and was that review documented?

#### Advancement

If required by firm policy, was the staff on this engagement appropriately evaluated?

#### Acceptance and Continuance of Clients

Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?

#### Professional Development

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, GASB, AICPA, SEC, etc.)?

QUES.	Engagement Code								MFC Ref.*
A523									
A524									
A525									
A526									
A527									
A528									
A529									

**V. PROCEDURES UNIQUE TO AUDITS OF SEC ENGAGEMENTS**  
(as defined in Section 1 of the SECPS Manual)

QUES.	Engagement Code								MFC Ref.*
If required by firm policy, was an SEC checklist or other specialized checklist used?	A601								
Were disclosures required by SEC Regulation S-X appropriate?	A602								
Is there indication that the firm obtained and read the document to be filed prior to the release of the signed opinion to be contained in the filing?	A603								
Was a concurring review by a partner other than the audit partner in charge of the engagement conducted prior to the issuance of the report, in conformity with the firm's requirements?	A604								
If a concurring partner review was performed:									
Was the review conducted by a partner with sufficient technical expertise and experience?	A605								
Were the nature, extent, and timing of the review procedures adequate in the circumstances?	A606								
Did the engagement files contain evidence that the firm's policies and procedures for the concurring review were complied with?	A607								
Was the concurring partner review effective?	A608								
If a comfort letter to an underwriter was issued, is it in accordance with professional standards? (SAS No. 49)	A609								
Have letters of comments or verbal comments received from the SEC or other regulatory agencies been appropriately considered?	A610								
Has there been rotation of the audit partner in charge of the engagement in conformity with the requirements of the SEC Practice Section?	A611								



If management advisory services were performed during the year under audit, was the firm in compliance with the Section's requirements:

Proscribing the performance of certain management advisory services?

Requiring an annual report to the audit committee or board of directors of the client, describing the types of such services rendered and the amount of the related fees received?

Was the nature of disagreements, if any, with the management of the client on financial accounting and reporting matters and auditing procedures which, if not satisfactorily resolved, would have caused the issuance of a qualified opinion reported to the audit committee or board of directors of the client in conformity with the Section's requirements?

Were the following matters, if they came to the attention of the auditor, communicated at least annually to the audit committee or board of directors of the client and were such communications documented in the working papers:

Material errors, irregularities, or possible illegal acts?

Material weaknesses in internal accounting controls?

Opinions obtained by management from other independent accountants on the application of generally accepted accounting principles that would affect the entity's financial statements or on the type of opinion that may be rendered on the entity's financial statements and that are subject to the requirements of SAS 50, and the conclusions reached by management and by the auditor with respect to the matters covered by such opinions?

Accounting and disclosure considerations associated with material contingencies, together with the nature and reasonableness of the underlying assumptions and estimates of management?

QUES.	Engagement Code							MFC Ref.*
A612								
A613								
A614								
A615								
A616								
A617								
A618								

Accounting and disclosure decisions with respect to transactions that are unusual in nature and have a material effect on the financial statements?

Situations involving the adoption of or change in an accounting principle where the application of an alternative generally accepted accounting principle would have had a material effect on the financial statements?

QUES.	Engagement Code							MFC Ref.*
A619								
A620								

Exhibit C

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

SUMMARY CHECKLIST FOR REVIEWS OF

REVIEWS OF FINANCIAL STATEMENTS

(See page iv of the "Instructions for  
Use of Peer Review Program Guidelines")

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1211 Avenue of the Americas, New York, NY 10036-8775

## I. REPORT AND FINANCIAL STATEMENTS

### Accountants' Report

Is the report dated in conformity with the requirements of professional standards?

Does the report adequately disclose all required matters and does its language conform to that required by professional standards?

If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards?

If required by the circumstances, does the accountants' report depart from the standard report and include appropriate language describing the modification?

If supplementary information accompanies the basic financial statements, does the accountant describe in his report the degree of responsibility, if any, he is taking?

QUES.	Engagement Code							MFC Ref*
R101								
R102								
R103								
R104								
R105								

---

\* If the significance or frequency of the "no" answers warrant the preparation of a matter for further consideration form, provide the cross-reference.

(SRS-3 through SRS-6 blank)

Does each page of financial statements that have been reviewed include a reference to the accountants' report?

# Financial Statements and Footnotes

## General

Are the financial statements suitably titled?

Is the presentation appropriate and disclosure adequate regarding:

Significant accounting policies?

Accounting changes?

Comparative financial statements?

Business combinations?

Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards?

Is summarized financial information disclosed for majority-owned subsidiaries that were not consolidated in years prior to the application of FASB No. 94?

If the entity controls a group of related entities, did the accountant consider the need for combined financial statements?

Are required disclosures made concerning related party transactions?

Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed?

Are foreign operations and export sales adequately disclosed?

Are nonmonetary transactions accounted for and disclosed?

QUES.	Engagement Code							MFC Ref*
R106								
R107								
R108								
R109								
R110								
R111								
R112								
R113								
R114								
R115								
R116								
R117								
R118								

With respect to contingencies and commitments:

Are loss contingencies disclosed and/or accrued?

Are commitments and other contingencies adequately disclosed?

Are the financial statements, where appropriate, adjusted for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?

If FASB No. 87 is being applied, is the following information on defined benefit pension plans adequately disclosed:

A description of the plan?

The amount of net periodic pension cost and of required cost components?

A reconciliation of the plan's funded status with the amounts reported in the employer's balance sheet?

The discount rate and rate of compensation increase used to measure the projected benefit obligation and the long-term rate of return on plan assets?

Other information concerning plan assets, benefits, and amortization methods?

Are all other pension plans adequately disclosed?

Are postretirement health care and life insurance benefits properly disclosed?

If the entity is or has been a "development stage enterprise," are adequate disclosures made?

Do the financial statements, where required, include appropriate presentations of:

Segment information?

Major customers?

Futures contracts?

QUES.	Engagement Code							MFC Ref*
R119								
R120								
R121								
R122								
R123								
R124								
R125								
R126								
R127								
R128								
R129								
R130								
R131								
R132								

### Balance Sheet

Is the presentation appropriate and disclosure adequate regarding:

Segregation of assets and liabilities into current and noncurrent classifications?

Valuation allowances?

Restricted cash, including compensating balances?

Marketable equity securities?

Other marketable securities?

Receivables:

Unbilled receivables?

Loans and related origination fees?

Effect of interest rates which do not reflect market rates?

Receivables related to troubled debt restructurings?

Other receivables?

Inventories?

Investments?

Property and equipment, including accounting for depreciation, assets of discontinued operations, investment credit, and capitalized interest?

Sales-type, direct financing, and operating leases of lessors?

Other assets, including intangible assets, unamortized computer software costs, deferred tax assets and deferred charges?

QUES.	Engagement Code							MFC Ref*
R133								
R134								
R135								
R136								
R137								
R138								
R139								
R140								
R141								
R142								
R143								
R144								
R145								
R146								
R147								



Pledged assets?

Current liabilities?

Short-term liabilities expected to be refinanced?

Notes payable and other debt:

    Maturities and rates?

    Other important terms and covenants?

    Effect of interest rates which do not reflect market rates?

    Effect of troubled debt restructurings?

    Effect of early extinguishment of debt?

    Maturities and sinking fund requirements for the next five years?

Capital and operating leases of lessees?

Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue?

Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?

Stock option and stock purchase plans?

Stock subscriptions receivable?

Retained earnings, including appropriations thereof and restrictions on dividends?

Changes in stockholders' equity?

Redemption requirements on capital stock for the next five years?

QUES.	Engagement Code							MFC Ref*
R148								
R149								
R150								
R151								
R152								
R153								
R154								
R155								
R156								
R157								
R158								
R159								
R160								
R161								
R162								
R163								
R164								

### Income Statement

Are the important components of the income statement separately disclosed?

Is the presentation appropriate and disclosure adequate regarding:

Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?

Gains and losses, realized and unrealized, from marketable equity securities?

Income and income taxes on investments in securities accounted for on the equity method?

Research and development costs?

Computer software costs?

Interest costs?

Discount or premium on notes receivable or payable?

Depreciation?

Pension costs?

Compensatory stock issuance plan?

Deferred compensation agreements?

Sales transactions in which the buyer has a right to return the product?

Product financing arrangements?

Income taxes, computed under the early application of FASB No. 96, to include:

The types of temporary differences that cause significant portions of a deferred tax liability or asset?

QUES.	Engagement Code							MFC Ref*
R165								
R166								
R167								
R168								
R169								
R170								
R171								
R172								
R173								
R174								
R175								
R176								
R177								
R178								
R179								

Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status?

Reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations?

Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes?

Other information concerning tax expense, benefits and the effect of income taxes?

Income taxes computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from the customary relationship between income and taxes?

Discontinued operations?

Extraordinary and unusual items?

#### Statement of Changes in Financial Position

Is a statement of changes in financial position presented for each period for which an income statement is presented?

Does it disclose all important aspects of financing and investing activities?

Are net changes in each element of working capital disclosed?

#### Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided?

QUES.	Engagement Code							MFC Ref*
R180								
R181								
R182								
R183								
R184								
R185								
R186								
R187								
R188								
R189								
R190								

Does it report cash provided or used by investing, financing, and operating activities?

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree to the amounts on the balance sheet?

Does it provide a reconciliation between net income and net cash flow from operating activities?

Are noncash investing and financing activities disclosed?

If the indirect method of reporting net cash flows from operating activities was used were the amounts of interest and income taxes paid disclosed?

Other

If the industry in which the client is practicing is covered by an accounting and audit guide, are the suggested format, statements, and disclosures consistent with the guide?

QUES.	Engagement Code							MFC Ref*
R191								
R192								
R193								
R194								
R195								
R196								

## II. GENERAL REVIEW PROCEDURES

Was an engagement letter issued or a written memorandum of an oral understanding prepared to provide a record of the understanding with the client as to the services to be provided? (SSARS No. 1, paragraph 8 requires the accountant to establish an understanding with the entity, preferably in writing)

Was information obtained about the accounting principles and practices of the industry in which the entity operates and about the entity's business or, if information was obtained from prior engagements, was it updated for changed circumstances, and given appropriate consideration (e.g., proposed work program, manpower requirements, etc.)? (SSARS No. 1)

If the subject engagement was originally intended to be an audit, rather than a review of financial statements, did the accountant consider: (SSARS No. 1, paragraph 45)

The reason given for the client's request, particularly the implications of a restriction on the scope of the examination, whether imposed by the client or by circumstances?

The additional audit effort required to complete the examination?

The estimated additional cost to complete the examination?

Did the accountant's inquiries and analytical procedures consist of the following (SSARS No. 1, paragraph 27):

Inquiries concerning the entity's accounting principles and practices and the methods followed in applying them?

Inquiries concerning the entity's procedures for recording, classifying, and summarizing transactions, and accumulating information for disclosure in the financial statements?

QUES.	Engagement Code						MFC Ref*
R201							
R202							
R203							
R204							
R205							
R206							
R207							

Analytical procedures designed to identify relationships and individual items that appear to be unusual?

Inquiries concerning actions taken at meetings of stockholders, board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements?

Reading the financial statements to consider, on the basis of information coming to the accountant's attention, whether the financial statements appear to conform with generally accepted accounting principles?

Obtaining reports from other accountants, if any, who have been engaged to audit or review the financial statements of significant components of the reporting entity, its subsidiaries, and other investees?

Inquiries of persons having responsibility for financial and accounting matters concerning (1) whether the financial statements have been prepared in conformity with generally accepted accounting principles consistently applied, (2) changes in the entity's business activities or accounting principles and practices, (3) matters as to which questions have arisen in the course of applying the foregoing procedures, and (4) events subsequent to the date of the financial statements that would have a material effect on the financial statements?

If the accountant became aware that information that came to his attention was incorrect, incomplete, or otherwise unsatisfactory, did he perform additional procedures as deemed necessary to achieve limited assurance that there were no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles? (SSARS No. 1, paragraph 29)

QUES.	Engagement Code						MFC Ref*
R208							
R209							
R210							
R211							
R212							
R213							

Do the accountant's working papers adequately reflect (SSARS No. 1, paragraph 30):

The matters covered in his inquiry and analytical procedures?

Unusual matters that he considered during the performance of the review, including their disposition?

If the accountant decided to obtain a representation letter from the owner, manager, or chief executive officer (SSARS No. 1, paragraph 31), does it appear to be appropriate in the circumstances?

If any circumstances were encountered by the accountant that precluded him from performing inquiries and analytical procedures as deemed necessary (SSARS No. 1, paragraph 36):

Did the accountant consider whether these circumstances would have resulted in an incomplete review and therefore afford him an inadequate basis for issuing a review report?

Did the accountant consider whether these same circumstances would also preclude him from issuing a compilation report on the entity's financial statements?

Do such determinations by the accountant appear to be proper?

Have all questions, exceptions, or notes, posed during the work been followed up and resolved?

Does it appear that appropriate consideration was given to all passed adjustments?

If the accountant became aware that information supplied by the entity was incorrect, incomplete or otherwise unsatisfactory subsequent to the date of his report, did he consider the guidance in SSARS No. 1, paragraph 42, in determining an appropriate course of action, and does the matter appear to be properly resolved?

QUES.	Engagement Code						MFC Ref*
R214							
R215							
R216							
R217							
R218							
R219							
R220							
R221							
R222							





### III. FUNCTIONAL AREAS

#### Independence

If any evidence was noted during the peer review which may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered?

Have personnel been appropriately informed as to the need to observe independence requirements with regard to this client and any other related nonclient parent, investor, investee, subsidiary or affiliate?

Was timely and appropriate assurance of independence of other firms engaged to perform segments of the engagement obtained?

Were the fees for the prior year's services paid prior to issuance of the current year's report?

#### Assigning Personnel to Engagements

Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel?

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement, and the extent of supervision provided?

#### Consultation

Was there appropriate consultation and documentation thereof:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it?

Were the firm's conclusions consistent with professional standards?

QUES.	Engagement Code							MFC Ref*
R301								
R302								
R303								
R304								
R305								
R306								
R307								
R308								
R309								

If the engagement records indicated a difference of opinion between engagement personnel and a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented?

### Supervision

Does it appear that engagement planning was appropriate in the circumstances?

Did the partner (or manager) approve the overall engagement plan (including the engagement program) as the final planning step and convey his approval or modifications to the engagement staff?

Does it appear that hours charged by the partner and manager were both adequate and appropriately timed to provide for any planning and supervision as the job progressed?

Were forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

Work programs?

Financial statement disclosures?

Working paper preparation and reading of financial statements?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of compliance with the firm's policies applicable to a review?

Were the firm's guidelines, if any, for the review complied with?

Were differences of professional opinion between engagement personnel resolved in accordance with firm policy?

QUES.	Engagement Code						MFC Ref*
R310							
R311							
R312							
R313							
R314							
R315							
R316							
R317							
R318							
R319							
R320							

Was an appropriate review made of the working papers, report and financial statements, by a person whose position in the firm is commensurate with that responsibility, to determine that work performed is complete and conforms to professional standards and firm policy?

#### Advancement

If required by firm policy, was the staff on this engagement appropriately evaluated?

#### Acceptance and Continuance of Clients

Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?

#### Professional Development

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)?

QUES.	Engagement Code						MFC Ref*
R321							
R322							
R323							
R324							

EXHIBIT D

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

SUMMARY CHECKLIST FOR REVIEWS OF  
COMPILATIONS OF FINANCIAL STATEMENTS

(See page iv of the "Instructions for Use  
of the Peer Review Program Guidelines")

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1211 Avenue of the Americas, New York, NY 10036-8775

## I. REPORT AND FINANCIAL STATEMENTS

### Accountants' Report

Is the report dated in conformity with the requirements of professional standards?

Does the report adequately disclose all required matters and does its language conform to that required by professional standards?

If required by the circumstances, does the accountants' report depart from the standard report and include appropriate language describing the modification?

If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards?

If supplementary information accompanies the basic financial statements, does the accountant describe in his report the degree of responsibility, if any, he is taking?

Does each page of financial statements that have been compiled include a reference to the accountants' report?

### Financial Statements and Footnotes

#### General

Are the financial statements suitably titled?

Is the presentation appropriate and disclosure adequate regarding:

Significant accounting policies?

Accounting changes?

Comparative financial statements?

Business combinations?

QUES.	Engagement Code						MFC Ref*
C101							
C102							
C103							
C104							
C105							
C106							
C107							
C108							
C109							
C110							
C111							

\* If the significance or frequency of the "no" answers warrant the preparation of a matter for further consideration form, provide the cross reference.

(SCS-3 through SCS-6 blank)

Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards?

Is summarized financial information disclosed for majority-owned subsidiaries that were not consolidated in years prior to the application of FASB No. 94?

If the entity controls a group of related entities, did the accountant consider the need for combined financial statements?

Are required disclosures made concerning related party transactions?

Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed?

Are foreign operations and export sales adequately disclosed?

Are nonmonetary transactions accounted for and disclosed?

With respect to contingencies and commitments:

Are loss contingencies disclosed and/or accrued?

Are commitments and other contingencies adequately disclosed?

Are the financial statements, where appropriate, adjusted for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?

If FASB No. 87 is being applied, is the following information on defined benefit pension plans adequately disclosed:

A description of the plan?

The amount of net periodic pension cost and of required cost components?

QUES.	Engagement Code							MFC Ref*
C112								
C113								
C114								
C115								
C116								
C117								
C118								
C119								
C120								
C121								
C122								
C123								

A reconciliation of the plan's funded status with the amounts reported in the employer's balance sheet?

The discount rate and rate of compensation increase used to measure the projected benefit obligation and the long-term rate of return on plan assets?

Other information concerning plan assets, benefits, and amortization methods?

Are all other pension plans adequately disclosed?

Are postretirement health care and life insurance benefits properly disclosed?

If the entity is or has been a "development stage enterprise," are adequate disclosures made?

Do the financial statements, where required, include appropriate presentations of:

Segment information?

Major customers?

Futures contracts?

#### Balance Sheet

Is the presentation appropriate and disclosure adequate regarding:

Segregation of assets and liabilities into current and noncurrent classifications?

Valuation allowances?

Restricted cash, including compensating balances?

Marketable equity securities?

Other marketable securities?

Receivables:

Unbilled receivables?

QUES.	Engagement Code							MFC Ref*
C124								
C125								
C126								
C127								
C128								
C129								
C130								
C131								
C132								
C133								
C134								
C135								
C136								
C137								
C138								



QUES.	Engagement Code							MFC Ref*
Loans and related origination fees?	C139							
Effect of interest rates which do not reflect market rates?	C140							
Receivables related to troubled debt restructurings?	C141							
All other receivables?	C142							
Inventories?	C143							
Investments?	C144							
Property and equipment, including accounting for depreciation, assets of discontinued operations, investment credit, and capitalized interest?	C145							
Sales-type, direct financing, and operating leases of lessors?	C146							
Other assets, including intangible assets, unamortized computer software costs, deferred tax assets and deferred charges?	C147							
Pledged assets?	C148							
Current liabilities?	C149							
Short-term liabilities expected to be refinanced?	C150							
Notes payable and other debt:								
Maturities and rates?	C151							
Other terms and covenants?	C152							
Effect of interest rates which do not reflect market rates?	C153							
Effect of troubled debt restructurings?	C154							
Effect of early extinguishment of debt?	C155							

Maturities and sinking fund requirements for the next five years?

Capital and operating leases of lessees?

Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue?

Capital stock (number of shares authorized, issued, and outstanding, par or stated value per share, rights and preferences of various classes)?

Stock option and stock purchase plans?

Stock subscriptions receivable?

Retained earnings, including appropriations thereof and restrictions on dividends?

Changes in stockholders' equity?

Redemption requirements on capital stock for the next five years?

#### Income Statement

Are the important components of the income statement separately disclosed?

Is the presentation appropriate and disclosure adequate regarding:

Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?

Gains and losses, realized and unrealized from marketable equity securities?

Income and income taxes on investments in securities accounted for on the equity method?

Research and development costs?

Computer software costs?

QUES.	Engagement Code							MFC Ref*
C156								
C157								
C158								
C159								
C160								
C161								
C162								
C163								
C164								
C165								
C166								
C167								
C168								
C169								
C170								

Interest costs?

Discount or premium on notes receivable or payable?

Depreciation?

Pension costs?

Compensatory stock issuance plan?

Deferred compensation agreements?

Sales transactions in which the buyer has the right to return the product?

Product financing arrangements?

Income taxes, computed under the early application of FASB No. 96, to include:

The types of temporary differences that cause significant portions of a deferred tax liability or asset?

Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status?

Reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations?

Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes?

Other information concerning tax expenses, benefits and the effect of income taxes?

QUES.	Engagement Code							MFC Ref*
C171								
C172								
C173								
C174								
C175								
C176								
C177								
C178								
C179								
C180								
C181								
C182								
C183								

Income taxes computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from the customary relationship between income and taxes?

Discontinued operations?

Extraordinary and unusual items?

#### Statement of Changes in Financial Position

Is a statement of changes in financial position presented for each period for which an income statement is presented?

Does it disclose all important aspects of financing and investing activities?

Are net changes in each element of working capital disclosed?

#### Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided?

Does it report cash provided or used by investing, financing, and operating activities?

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet?

Does it provide a reconciliation between net income and net cash flow from operating activities?

Are noncash investing and financing activities disclosed?

If the indirect method of reporting net cash flows from operating activities was used were the amounts of interest and income taxes paid disclosed?

QUES.	Engagement Code							MFC Ref*
C184								
C185								
C186								
C187								
C188								
C189								
C190								
C191								
C192								
C193								
C194								
C195								

Other

If the industry in which the client is practicing is covered by an accounting and audit guide, are the suggested format, statements, and disclosures consistent with the guide?

QUES.	Engagement Code						MFC Ref*
C196							

## II. GENERAL PROCEDURES

Was an engagement letter issued or a written memorandum of an oral understanding prepared to provide a record of the understanding with the client as to the services to be provided? (SSARS No. 1, paragraph 8 requires the accountant to establish an understanding with the entity, preferably in writing)

Was information obtained about the accounting principles and practices of the industry in which the entity operates and about the entity's business transactions, the form of its accounting records, the stated qualifications of its accounting personnel, the accounting basis on which the financial statements are to be presented, and the form and content of the financial statements or, if information was obtained from prior engagements, was it updated for changed circumstances, and given appropriate consideration (e.g., proposed work program, manpower requirements, etc.)? (SSARS No. 1, paragraph 10, 11 and 12)

If the subject engagement was originally intended to be an audit, rather than a compilation of financial statements, did the accountant consider: (SSARS No. 1, paragraph 45)

The reason given for the client's request, particularly the implications of a restriction on the scope of the examination, whether imposed by the client or by circumstances?

The additional audit effort required to complete the examination?

The estimated additional cost to complete the examination?

Did the accountant consider whether it was necessary to perform other accounting services, such as assistance in adjusting the books of account or consultation on accounting matters, in compiling the financial statements? (SSARS No. 1, paragraph 11)

QUES.	Engagement Code							MFC Ref*
C201								
C202								
C203								
C204								
C205								
C206								

Is there an indication in accordance with firm policy that the accountant read the compiled financial statements and considered whether such financial statements appeared to be appropriate in form and free from obvious material errors? (SSARS No. 1, paragraph 13)

If the accountant became aware that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory for the purpose of compiling financial statements, did the accountant obtain additional or revised information? (SSARS No. 1, paragraph 12)

Have all questions, exceptions or notes, posed during the work been followed up and resolved?

If the accountant had become aware that information supplied by the entity was incorrect, incomplete or otherwise unsatisfactory subsequent to the date of his report, did he consider the guidance in SSARS No. 1, paragraph 42 in determining an appropriate course of action, and does the matter appear to be properly resolved?

QUES.	Engagement Code						MFC Ref*
C207							
C208							
C209							
C210							

### III. FUNCTIONAL AREAS

#### Independence

If any evidence was noted during the peer review which may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered?

Have personnel been appropriately advised about the need to observe independence requirements concerning the client and any other related non-client parent, investor, investee, subsidiary or affiliate?

Were the fees for the prior year's services paid prior to issuance of the current year's report?

#### Assigning Personnel to Engagements

Were scheduling and staffing requirements identified on a timely basis and approved by the appropriate personnel?

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement, and the extent of supervision provided?

#### Consultation

Was there appropriate consultation and documentation thereof:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it?

Were the firm's conclusions consistent with professional standards?

QUES.	Engagement Code							MFC Ref*
C301								
C302								
C303								
C304								
C305								
C306								
C307								
C308								



If the engagement records indicated a difference of opinion between engagement personnel and a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented?

#### Supervision

Does it appear that engagement planning was appropriate in the circumstances?

Were forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

Work programs?

Financial statement disclosures?

Working paper preparation and reading of financial statements?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of compliance with the firm's policies to compilation engagements?

Were the firm's guidelines, if any, for the form and content of working papers for a compilation complied with?

Were differences of professional opinion between engagement personnel resolved in accordance with firm policy?

#### Advancement

If required by firm policy, was the staff on this engagement appropriately evaluated?

QUES.	Engagement Code						MFC Ref*
C309							
C310							
C311							
C312							
C313							
C314							
C315							
C316							
C317							
C318							

Acceptance and Continuance of Clients

Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?

Professional Development

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)?

QUES.	Engagement Code						MFC Ref*
C319							
C320							

# EXHIBIT E

## Summary of Matter for Further Consideration Forms

\_\_\_\_\_  
(Name of Reviewed Firm)

MFC Number	Type of Matter*	Brief Description of Matter	Reference**	Does this matter, individually or collectively, result in a "no" answer in Section 4?		If yes, indicate Section 4 Reference
				Yes/No	Briefly explain reasons	

\*The reviewer should classify each matter discussed on an MFC form as a deficiency relating to either a) design, b) performance, c) compliance — membership, d) compliance — other, or e) documentation.

\*\*The reviewer should indicate the program or engagement checklist step that led to the MFC.

**EXHIBITS F-1 THROUGH F-10**

## **INTRODUCTION TO EXHIBITS F-1 THROUGH F-10**

Exhibits F-1 through F-9 to these Guidelines present matrices showing the relationship between the questions in Section 4 and the questions and procedures suggested in Sections 1 through 3 of these Guidelines and in the engagement checklists. Similarly, Exhibit F-10 presents the relationship between the Sections' membership requirements and the procedures suggested in Section 2 and in the audit engagement checklist. Reviewers are not obligated to use these exhibits in responding to the questions in Section 4, but may find them useful when they are unclear about the intended relationships.

**EXHIBIT F-1: INDEPENDENCE**

**Section 4 Conclusions**

- a. All professional personnel are required to adhere to applicable independence rules, regulations, interpretations, and rulings.
- b. The policies and procedures relating to independence are communicated to all professional personnel.
- c. When acting as principal auditor, the firm requires confirmation of the independence of another firm engaged to perform segments of an engagement.
- d. The firm adequately monitors compliance with the policies and procedures relating to independence on a timely basis.
- e. The firm complied with its independence policies and procedures during the period and documented its compliance to the extent required by firm policy.

Reference to Preceding Sections			Engagement Questions
Section 1	Section 2	Section 3	
A.1	A.1 and 2(a)	-	-
A.2	A.2(b), 2(c), 3 and 7	A.1 and 2	A502
A.6	A.6	A.3	A503
A.3, 4, 5 and 7	A.2(c) and 4	-	A501
-	A.2(a), 2(C), 4 and 5	-	A501, A504, A505

**EXHIBIT F-2: ASSIGNING PERSONNEL TO ENGAGEMENTS**

**Section 4 Conclusions**

- a. Identifies on a timely basis the staffing requirements of specific engagements.
- b. Communicates its policies and procedures for assigning personnel to engagements to professional personnel.
- c. Considers appropriate factors in assigning partners and staff achieving a balance of engagement manpower requirements, personnel skills, individual development, and utilization.
- d. Notifies staff of work assignments on a timely basis.
- e. Complied with its policies and procedures for assigning personnel to engagements during the period and adequately documented its compliance to the extent required by firm policy.

Reference to Preceding Sections			Engagement Questions
Section 1	Section 2	Section 3	
B.1	B.1(C)	-	A506
-	B.1	-	-
-	B.1(a), 1(b), 2 and 3	B.2	A507
B.4	B.1(d) and 2	-	-
-	B.3	-	A506

EXHIBIT F-3: CONSULTATIONSection 4 Conclusions

- a. Appropriately identifies areas and specialized situations where consultation is required.
- b. Designates, if applicable, appropriate individuals as specialists to serve as authoritative sources.
- c. Specifies the authority to be accorded specialists in consultative situations.
- d. Provides adequate procedures for resolving differences of opinion between engagement personnel and specialists.
- e. Requires and maintains appropriate documentation of the results of consultations, including, if applicable, considerations involved in the resolution of differences of opinion.
- f. Maintains or provides access to an adequate reference library or other authoritative sources.
- g. Adequately communicates its policies and procedures relating to consultation to all professional personnel.
- h. Complied with its policies and procedures for consultation during the period and adequately documented its compliance to the extent required by firm policy.

Reference to Preceding Sections			Engagement Questions
Section 1	Section 2	Section 3	
C.1 and 6	C.2 and 4	C.2	A508, A509
C.2	C.1	C.3	-
-	C.1	C.4	-
C.3	C.1	C.4	A511
C.5	C.3 and 5		A508, A509, A511
C.7 and 8	C.6	-	-
-	C.7	All	-
-	C.3	-	A508-A511



Section 4 Conclusions

- a. Has established appropriate procedures for planning engagements.
- b. Has established appropriate procedures for maintaining the firm's standards of quality, including:
- (i) Guidelines for the form and content of working papers.
  - Standardized forms, checklists, questionnaires, and other guidance materials to the extent appropriate.
  - Adequate supervision at all organizational levels.
  - Procedures for resolving differences of professional judgment among the engagement team.
- c. Has established appropriate procedures for reviewing engagements and for the documentation thereof.
- d. Adequately communicates its policies and procedures relating to supervision to all professional personnel.
- e. Complied with its policies and procedures for supervision during the period and adequately documented its compliance to the extent required by firm policy.
- f. Conformed with professional standards during the period in the performance of the accounting and auditing engagements selected for review.

Reference to Preceding Sections			Engagement Questions
Section 1	Section 2	Section 3	
D.1 and 2	D.1 and 2	D.1 and 2	-
D.3 and 4	D.3(f) and 4	-	-
D.5	D.3, 4 and 5	-	-
D.7, 8, and 11	D.6 and 9	D.3 and 4	-
D.6	D.7	D.5	-
D.7, 8, 9 and 11	D.6, 8 and 9	-	-
-	D.10	D.5	-
-	-	-	A512-A526
-	-	-	A526

EXHIBIT F-5:     HIRINGSection 4 Conclusions

- a. Adequately plans for the firm's personnel needs and establishes appropriate hiring objectives, based on current clientele, anticipated growth, personnel turnover, etc.
- b. Identifies relevant attributes, achievements and experience to be sought in hirees.
- c. Appropriately investigates and evaluates the qualifications of prospective employees to assure that they meet the firm's requirements and standards.
- d. Adequately communicates its policies and procedures relating to hiring to those persons involved in the hiring process.
- e. Adequately monitors the effectiveness of its recruiting program.
- f. Informs new personnel of the firm's policies and procedures on a timely basis.
- g. Complied with its policies and procedures relating to hiring during the period and adequately documented its compliance to the extent required by firm policy.

Reference to Preceding Sections			Engagement Questions
Section 1	Section 2	Section 3	
-	E.1(a) and 2	-	-
E.2	E.1(b), 1(c) and 3	E.5	-
E.3	E.1(d) and 4	-	-
-	E.1(e) and 6	E.4	-
-	E.1(f)	-	-
E.5	E.1(b), 4(c) and 5	E.3 and 5	-
-	E.4	-	-

**EXHIBIT F-6: PROFESSIONAL DEVELOPMENT**

**Section 4 Conclusions**

- a. Has established appropriate continuing professional education requirements for personnel at each level within the firm.
- b. Adequately monitors the development of continuing professional education programs, maintains appropriate records and monitors those records.
- c. Provides personnel with appropriate professional literature relating to current developments on a timely basis.
- d. Provides personnel with appropriate programs, including, to the extent necessary, programs to fill the firm's needs for personnel with expertise in specialized areas and industries.
- e. Provides adequate on-the-job training.
- f. Adequately communicates its policies and procedures relating to professional development to all professional personnel.
- g. Complied with its policies and procedures during the period relating to professional development and adequately documents its compliance to the extent required by firm policy.

Reference to Preceding Sections		Engagement Questions
Section 1	Section 2	
F.2	F.1(a)	-
F.2	F.1(b), 2 and 3	-
F.2 and 5	F.4	-
F.2	F.1(c) and 3	F.1 A529
-	-	F.2 and 3
-	F.1(c) and 5	-
-	F.2 and 3	-

**EXHIBIT F-7: ADVANCEMENT****Section 4 Conclusions**

- a. Has established appropriate qualifications for the various levels of responsibility within the firm.
- b. Has identified relevant criteria for evaluating individual performance and expected proficiency.
- c. Adequately communicates criteria for evaluating individual performance and expected proficiency to professional personnel.
- d. Appropriately evaluates the performance of partners and other personnel on a periodic basis, including an assessment of their progress within the firm.
- e. Provides for appropriate documentation of evaluations of performance.
- f. Appropriately evaluates the data obtained regarding performance and gives proper recognition in advancement decisions to the quality of work performed.
- g. Appropriately monitors the firm's advancement experience on a periodic basis to ascertain whether individuals meeting stated criteria are assigned increased degrees of responsibility.
- h. Complied with its advancement policies and procedures during the period and adequately documented its compliance to the extent required by firm policy.

F-7

Reference to Preceding Sections			Engagement Questions
Section 1	Section 2	Section 3	
G.1 and 2	G.1(a) and 2	G.1 and 2	-
G.2	G.1(a) and 2	-	-
-	G.5	G.3	-
G.3	G.1(a), 3 and 4	G.3, 4 and 5	A527
G.3	G.1(b) and 3	-	-
-	G.1(a) and 3	-	-
-	G.1(b)	-	-
-	G.3	-	A527

**EXHIBIT F-8: ACCEPTANCE AND CONTINUANCE OF CLIENTS**

**Section 4 Conclusions**

- a. Has established appropriate policies and procedures for evaluating and obtaining information about prospective clients.
- b. Requires communication with predecessor auditors, if any, in accordance with auditing standards.
- c. Has established appropriate policies and procedures for evaluating whether the relationship with existing clients should be continued.
- d. Communicates its policies and procedures for accepting and continuing clients to appropriate personnel.
- e. Adequately monitors its compliance with its policies and procedures relating to acceptance and continuance of clients.
- f. Complied with its policies and procedures relating to acceptance and continuance of clients and adequately documented its compliance to the extent required by firm policy.

Reference to Preceding Sections		Engagement Questions
Section 1	Section 2	
H.1 and 3	H.1(a) and 3	-
H.1	H.3	-
H.4 and 5	H.2(a) and 3	-
-	H.4 and 8	H.1
H.6	H.1(b)	-
-	H.5 , 6 and 7	A206, A207, A528

**EXHIBIT F-9: INSPECTION****Section 4 Conclusions**

- a. The firm has established appropriate inspection procedures to provide reasonable assurance that the firm's quality control policies and procedures in other areas are operating effectively.
- b. The firm has established appropriate qualifications for personnel to participate in inspection activities.
- c. A comprehensive inspection was performed and documented --
  - (i) Covering the year under review.
  - (ii) Covering the two preceding years.
- d. Inspection findings are discussed with appropriate personnel.
- e. Appropriate corrective actions are taken or planned with respect to inspection findings.
- f. The firm adequately monitors the corrective actions taken.

Reference to Preceding Sections			Engagement Questions
Section 1	Section 2	Section 3	
I.2 and 3	I.1 and 2	-	-
I.2	I.1(a), 2(a), and (d)	-	-
I.4	I.2(b) and 2(c)	-	-
		-	-
I.5	I.1(d) and 2(e)	I.1 and 2	-
I.5	I.1(d) and 2(e)	I.1	-
-	I.1(d) and 2(e)	-	-

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# EXHIBIT F-10 MEMBERSHIP

## Description of Requirement

Majority of all members of the firm are CPAs; firm can legally engage in the practice of public accounting; and all members eligible for membership are members of the AICPA.

Adhere to quality control standards.

Submit to a peer review every three years.

Participate in the required amount of continuing professional education courses.

Periodically rotate the engagement partner on SEC engagements.

Establish a concurring partner review requirement for each SEC audit client.

File an annual report.

Refrain from performing certain proscribed management advisory services for SEC engagements.

Communicate at least annually with the audit committee or board of directors of each SEC audit client regarding the matters identified.

Pay dues.

Report litigation to the Quality Control Inquiry Committee.

Communicate broad principles to all professional personnel through a written statement of philosophy.

Membership Requirement		Suggested Step			Audit Engagement Questions
SECPS	PCPS	Section 1	Section 2	Section 3	
a	a	-	J.1,2,3, and 4	-	-
b	b	-	All questions	-	All questions
c	c	-	F.3	-	-
d	d	-	F.3	-	-
e	-	J.1(a)	J.11	-	A610
f	-	J.1(b)	J.7	-	A603-A607
g	g	-	J.5	-	-
i	-	J.1(c)	J.10	-	A611
p	-	J.1(d)	J.12	-	A612-A619
l	f	-	J.6	-	-
m	-	-	J.8 and 9	-	-
o	-	J.1(g)	J.13	J.1	-



**EXHIBIT F-10 MEMBERSHIP**

**Description of Requirement**

Communicate in writing on a timely basis to an SEC registrant and the Office of the Chief Accountant of the SEC that the client-auditor relationship has ceased.

Membership Requirement		Suggested Step			Audit Engagement
SECPS	PCPS	Section 1	Section 2	Section 3	Questions
q	-	J.1(f)	J.14 and J.15	-	-



**Audit Engagement  
Checklist**

As Revised - 1990

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

CHECKLIST FOR REVIEW OF AUDIT ENGAGEMENTS

(SEE SEPARATE INSTRUCTIONS FOR USE OF THIS CHECKLIST)

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American Institute of Certified Public Accountants, Inc.  
1211 Avenue of the Americas, New York, NY 10036-8775

ENGAGEMENT PROFILE

Engagement Code No. \_\_\_\_\_ Office \_\_\_\_\_

Partner \_\_\_\_\_ Date of Financial Statements\* \_\_\_\_\_

Manager \_\_\_\_\_ Date of Report \_\_\_\_\_

Concurring Reviewer \_\_\_\_\_ Date Report Released \_\_\_\_\_

Is this an SEC audit client? Yes\_\_ No\_\_

Is this client a part of other related groups? Yes\_\_ No\_\_

The responsibility of this office involves reporting on:

- ( ) financial statements (single entity)
- ( ) consolidated financial statements
- ( ) subsidiary, division or branch
- ( ) special reports
- ( ) limited reviews
- ( ) unaudited interim statements
- ( ) loan agreement compliance letters
- ( ) other (explain)

Was the work performed at the request of another office? Yes\_\_ No\_\_

Date that the fee for the prior year's engagement was paid \_\_\_\_\_

Key data reported on by this office for this engagement:

Total assets	\$	_____
Equity	\$	_____
Net sales	\$	_____
Net income	\$	_____

Major lines of business:

Complex or troublesome audit areas:

List any nonaudit services performed for the client during the period of the financial statements being reported on and through the date of the auditor's report:

Personnel Continuity:

	<u>Partner</u>	<u>Manager or (equivalent)</u>
Number of years assigned to this job	_____	_____
Number of years in current position on the job	_____	_____

\* To determine the applicability of all cross-referenced pronouncements, their effective dates should be considered.

Audit hours on this engagement:

	<u>Total</u>	<u>Prior to Commencement of Field Work</u>	<u>During Field Work</u>	<u>After Completion of Field Work</u>
Partner	_____	_____	_____	_____
Manager (or equivalent)	_____	_____	_____	_____
Senior	_____	_____	_____	_____
Concurring Reviewer **	_____	_____	_____	_____
Other	_____	_____	_____	_____
Total this office	_____	Total budgeted _____		

LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is left to the judgment of the reviewers; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily all key audit areas should be reviewed. List below the key areas on this engagement and, if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II and IV should be answered in addition to the key areas identified.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

Date Engagement  
Review Performed \_\_\_\_\_

Date Checklist Reviewed  
by Team Captain \_\_\_\_\_

Reviewer \_\_\_\_\_

Signature \_\_\_\_\_

**\*\*Not applicable on peer reviews of PCPS member firms only and on reviews of non-SEC clients unless required by firm policy.**

## CHECKLIST FOR REVIEW OF AUDIT ENGAGEMENTS

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NOTE: This checklist has been updated through  
SAS No. 63, SFAS No. 102, and FASB  
Interpretation No. 38.

## I. REPORT AND FINANCIAL STATEMENTS

NOTE: This is a highly summarized checklist taken from the AICPA financial reporting practice aid, Disclosure Checklists. Reviewers may wish to consult that checklist, a copy of which has been provided to the review team, for detailed information about the requirements of professional standards and for citations thereto. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

### Auditors' Report

Is the report dated in conformity with the requirements of professional standards?

Does the report adequately disclose all required matters and does its language conform to that required by professional standards? (SAS No. 58)

If required by the circumstances, does the auditor's report depart from the standard report and include appropriate language describing the departure?

If supplementary information accompanies the basic financial statements, does the auditor describe in his report the degree of responsibility, if any, he is taking?

For special reports, have the provisions of SAS Nos. 14, 35 and 62 been complied with regarding:

Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? (SAS Nos. 14 and 62)

Specified elements, accounts or items of a financial statement? (SAS Nos. 14, 35 and 62)

QUES.	N/A*	YES	NO	REF.**
A101				
A102				
A103				
A104				
A105				
A106				

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	QUES.	N/A	YES	NO	REF.
Compliance with aspects of agreements or regulatory requirements relating to audited financial statements? (SAS Nos. 14 and 62)	A107				
Financial presentations to comply with contractual agreements or regulatory provisions? (SAS No. 62)	A108				
Financial information that requires a prescribed form of auditor's report? (SAS Nos. 14 and 62)	A109				
For reports on financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the United States, has there been compliance with the provisions of SAS No. 51?	A110				
<u>Financial Statements and Footnotes</u>					
<u>General</u>					
Are the financial statements suitably titled?	A111				
Is the presentation appropriate and disclosure adequate regarding:					
Significant accounting policies?	A112				
Accounting changes?	A113				
Comparative financial statements?	A114				
Business combinations?	A115				
Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards?	A116				
Is summarized financial information disclosed for majority-owned subsidiaries that were not consolidated in years prior to the application of FASB No. 94?	A117				
If the entity controls a group of related entities, did the auditor consider the need for combined financial statements?	A118				
Are required disclosures made concerning related party transactions?	A119				

Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed?

Are foreign operations and export sales adequately disclosed?

Are nonmonetary transactions accounted for and disclosed?

With respect to contingencies and commitments:

Are loss contingencies disclosed and/or accrued?

Are commitments and other contingencies adequately disclosed?

Are the financial statements, where appropriate, adjusted for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?

If FASB No. 87 is being applied, is the following information on defined benefit pension plans adequately disclosed:

A description of the plan?

The amount of net periodic pension cost and of required cost components?

A reconciliation of the plan's funded status with the amounts reported in the employer's balance sheet?

The discount rate and rate of compensation increase used to measure the projected benefit obligation and the long-term rate of return on plan assets?

Other information concerning plan assets, benefits, and amortization methods?

Are all other pension plans adequately disclosed?

Are postretirement health care and life insurance benefits properly disclosed?

If the entity is or has been a "development stage enterprise," are adequate disclosures made?

QUES.	N/A	YES	NO	REF.
A120				
A121				
A122				
A123				
A124				
A125				
A126				
A127				
A128				
A129				
A130				
A131				
A132				
A133				

Do the financial statements, where required, include appropriate presentations of:

Segment information?

Major customers?

Futures contracts?

Balance Sheet

Is the presentation appropriate and disclosure adequate regarding:

Segregation of assets and liabilities into current and noncurrent classifications?

Valuation allowances?

Restricted cash, including compensating balances?

Marketable equity securities?

Other marketable securities?

Receivables:

Unbilled receivables?

Loans and related origination fees?

Effect of interest rates which do not reflect market rates?

Receivables related to troubled debt restructurings?

Other receivables?

Inventories?

Investments

Property and equipment, including accounting for depreciation, assets of discontinued operations, investment credit, and capitalized interest?

Sales-type, direct financing, and operating leases of lessors?

QUES.	N/A	YES	NO	REF.
A134				
A135				
A136				
A137				
A138				
A139				
A140				
A141				
A142				
A143				
A144				
A145				
A146				
A147				
A148				
A149				
A150				

	QUES.	N/A	YES	NO	REF.
Other assets, including intangible assets, unamortized computer software costs, deferred tax assets and deferred charges?	A151				
Pledged assets?	A152				
Current liabilities?	A153				
Short-term liabilities expected to be refinanced?	A154				
Notes payable and other debt:					
Maturities and rates?	A155				
Other terms and covenants?	A156				
Effect of interest rates which do not reflect market rates?	A157				
Effect of troubled debt restructurings?	A158				
Effect of early extinguishment of debt?	A159				
Maturities and sinking fund requirements for the next five years?	A160				
Capital and operating leases of lessees?	A161				
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue?	A162				
Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?	A163				
Stock option and stock purchase plans?	A164				
Stock subscriptions receivable?	A165				
Retained earnings, including appropriations thereof and restrictions on dividends?	A166				
Changes in stockholders' equity?	A167				

Redemption requirements on capital stock  
for the next five years?

Income Statement

Are the important components of the income state-  
ment separately disclosed?

Is the presentation appropriate and disclosure  
adequate regarding:

Method of income recognition, where  
appropriate, for example: long-term  
contracts and real estate transactions?

Gains and losses, realized and unrealized,  
from marketable equity securities?

Income and income taxes on investments in  
securities accounted for on the equity method?

Research and development costs?

Computer software costs?

Interest costs?

Discount or premium on notes receivable  
or payable?

Depreciation?

Pension costs?

Compensatory stock issuance plan?

Deferred compensation agreements?

Sales transactions in which the buyer has a  
right to return the product?

Product financing arrangements?

Income taxes, computed under the early  
application of FASB No. 96, to include:

The types of temporary differences that  
cause significant portions of a deferred  
tax liability or asset?

QUES.	N/A	YES	NO	REF.
A168				
A169				
A170				
A171				
A172				
A173				
A174				
A175				
A176				
A177				
A178				
A179				
A180				
A181				
A182				
A183				

Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status?

QUES. N/A YES NO REF.

A184

Reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations?

A185

Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes?

A186

Other information concerning tax expenses, benefits and the effect of income taxes?

A187

Income taxes computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from the customary relationship between income and taxes?

A188

Discontinued operations?

A189

Extraordinary and unusual items?

A190

Earnings per share information?

A191

#### Statement of Changes in Financial Position

Is a statement of changes in financial position presented for each period for which an income statement is presented?

A192

Does it disclose all important aspects of financing and investing activities?

A193

Are net changes in each element of working capital disclosed?

A194



### Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided?(1)

Does it report cash provided or used by investing, financing and operating activities?

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet?

Does it provide a reconciliation between net income and net cash flow from operating activities?

Are noncash investing and financing activities disclosed?

If the indirect method of reporting net cash flows from operating activities were used, were the amounts of interest and income taxes paid disclosed?

### Other

If the industry in which the client is operating is covered by an accounting and audit guide, are the suggested format, statements, and disclosures consistent with the guide?

QUES.	N/A	YES	NO	REF.
A195				
A196				
A197				
A198				
A199				
A200				
A201				

- 
- (1) FASB No. 95, paragraph 34, encourages, but does not require, restatement of comparative financial statements for earlier years. The reviewer should not answer this question "no" if a statement of changes in financial position is presented for comparative years, but should consider the appropriateness of the accountant's report in these circumstances.

## II. GENERAL AUDIT PROCEDURES

In planning the audit engagement, did the auditor properly consider:

Matters affecting the industry in which the entity operates, such as accounting practices, economic conditions, laws and government regulations, and technological changes? (SAS No. 22)

Matters affecting the entity's business, such as organization and types of products and services? (SAS No.22)

Preliminary judgment about materiality levels for audit purposes? (SAS No. 47)

Anticipated reliance on internal accounting controls? (AU Section 311) (2)

If SAS No. 53 was not applicable to this engagement, conditions that may require extension or modification of audit tests, such as the possibility of material errors or irregularities and management's ability to override controls? (SAS No. 16)

If the auditor succeeded a predecessor accountant, did he:

Communicate with the predecessor accountant to ascertain whether there were disagreements between the predecessor accountant and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client?

Make other inquiries of the predecessor accountant on significant matters?

Satisfy himself on the fair presentation of opening balances, such as by reviewing the predecessor accountant's working papers?

QUES.	N/A	YES	NO	REF.
A202				
A203				
A204				
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A207				
A208				
A209				

- 
- (2) If early application of SAS No. 55 was elected, the reviewer should answer this question "N/A" and answer Questions A216 through A220.

If consideration was given to the work of internal auditors in determining the scope of the examination, was it done in accordance with SAS No. 9?

If the engagement included the use of the work (domestic or international) of another office, correspondent or affiliate:

Do the instructions to the other office or firm appear adequate?

Does it appear that the control exercised over the work of others through supervision and review was adequate?

Was there appropriate follow-up of open matters?

In those cases where another firm is used, were appropriate inquiries made as to its independence and professional reputation?

If SAS No. 56 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor use analytical procedures in planning the nature, timing and extent of other audit procedures?

If early application of SAS No. 55 was elected, did the auditor:

Obtain a sufficient understanding of each of the three elements (control environment, accounting system, and control procedures) of the entity's internal control structure to plan the audit?

Document his understanding of each of the three elements of the internal control structure?

Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level?

Document the basis for the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level?

QUES.	N/A	YES	NO	REF.
A210				
A211				
A212				
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A219				

If early application of SAS No. 55 was elected, and the user auditor has assessed control risk below the maximum for an assertion, and that assessment is dependent upon the application of controls at a service organization, has the auditor obtained and appropriately considered a service auditor's report or performed tests of operating effectiveness at the service organization?

If SAS No. 53 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS) did the auditor:

Make an assessment of the risk of material misstatements of the financial statements, including those resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts?

Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure?

Design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements?

If early application of SAS No. 55 was not elected:

Did the auditor obtain an understanding of the client's accounting system, including the control environment and the flow of transactions?

If after completing the preliminary phase of the review the auditor decided not to rely on the internal accounting control system to restrict substantive tests, were his reasons for deciding not to extend his review documented?

If the auditor decided to rely on the system:

Was there appropriate documentation of the auditor's understanding of the system and the basis for his conclusions about the suitability of its design?

QUES.	N/A	YES	NO	REF.
A220				
A221				
A222				
A223				
A224				
A225				
A226				

	QUES.	N/A	YES	NO	REF.
Were adequate tests of compliance with internal control procedures made?	A227				
Were deviations noted during compliance testing appropriately evaluated?	A228				
Was a final evaluation of internal accounting control documented and considered in the development of the audit program?	A229				
If the client used EDP in significant accounting applications, did the study and evaluation of internal controls include both general and application controls over EDP activities, including those, if any, at a service organization? (SAS Nos. 44 and 48)	A230				
If the auditor relied on the internal accounting controls at a service organization, was a service auditor's report obtained and appropriately considered? (SAS No. 44)	A231				
Was an appropriately tailored, written audit program prepared? (SAS No. 22 and applicable AICPA Industry Audit Guide)	A232				
If early application of SAS No. 55 was elected, was the audit program responsive to the needs of the engagement identified, and the understanding of the internal control structure obtained during the planning process?	A233				
If early application of SAS No. 55 was not elected, was the audit program responsive to the needs of the engagement identified during the planning process and was it developed in light of the strengths and weaknesses of internal control? (SAS No. 1, section 320)	A234				
Was consideration given to applicable assertions in developing audit objectives and in designing substantive tests? (SAS No. 31, paragraphs 9 through 13)	A235				
If conditions changed during the course of the examination, was the audit program modified as appropriate in the circumstances?	A236				
Have all procedures called for in audit programs been signed?	A237				

If statistical or nonstatistical sampling was used in compliance tests of internal controls (under SAS No. 55, tests of controls) (SAS 39, paragraphs .31 through .42):

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the compliance test, tolerable rate, allowable risk of overreliance, and likely rate of deviations?

Was the sample selected in such a way that it could be expected to be representative of the population?

Were the results of the sample evaluated as to their effect on the nature, timing and extent of planned substantive procedures?

In evaluating the sample, was appropriate consideration given to items for which the planned compliance test or appropriate alternative procedure could not be performed, for example, because the documentation was missing?

Was the documentation of the foregoing considerations in accordance with firm policy?

If statistical or nonstatistical sampling was used for substantive tests of details (SAS No. 39, paragraph .15 through .30):

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, tolerable error, acceptable level of risk of incorrect acceptance, and characteristics of the population?

Was the sample selected in such a way that it could be expected to be representative of the population?

Were the error results of the sample projected to the items from which the sample was selected?

QUES.	N/A	YES	NO	REF.
A238				
A239				
A240				
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A243				
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A245				

	QUES.	N/A	YES	NO	REF.
In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternate procedures could not be performed?	A246				
In the evaluation of whether the financial statements taken as a whole may be materially misstated, was appropriate consideration given, in the aggregate, to projected error results from all audit sampling applications and to all known errors from non-sampling applications?	A247				
Was the documentation of the foregoing considerations in accordance with firm policy?	A248				
If SAS No. 56 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor:					
Consider the guidelines in SAS No. 56 in developing, performing, and evaluating the results of analytical procedures used as substantive tests?	A249				
Use analytical procedures in the overall review stage of the audit?	A250				
If SAS No. 56 was not applicable to this engagement, were the guidelines of SAS 23 considered in the performance of analytical review procedures, including:					
Investigating significant fluctuations?	A251				
Evaluating the effects of the findings on the scope of the examination?	A252				
Has the auditor evaluated the reasonableness of accounting estimates made by management?(3)	A253				
Did the auditor obtain a timely and appropriate letter of representation from management? (SAS Nos. 19 and 63)	A254				
Did the auditor obtain timely and appropriate responses from the client's attorney concerning litigation, claims, and assessments? (SAS No. 12)	A255				

(3) The auditor has this responsibility under SAS No. 31, but has been given more specific guidance in SAS No. 57.

Have all questions, exceptions, or notes, posed during the audit been followed up and resolved?

Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely errors are considered with likely errors arising in the current period? (SAS No. 47)

If SAS No. 53 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor:

Follow up on errors and irregularities in accordance with SAS No. 53?

Consider the implications of an irregularity in relation to other aspects of the audit, including the reliability of the client's representations?

Assure himself that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement?

When the auditor's procedures disclosed instances or indications of illegal acts and SAS No. 54 and/or 63 were applicable to this engagement (either as result of the SAS's effective date or an early application of the SAS), did the auditor:

Follow up on illegal acts having a direct and material effect on the financial statements in accordance with SAS No. 54, paragraph 5.

Follow up on all other illegal acts in accordance with SAS No. 54, paragraph 7.

Consider the implications of a detected illegal act in relation to other aspects of the audit, including the reliability of the client's representations?

QUES.	N/A	YES	NO	REF.
A256				
A257				
A258				
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A260				
A261				
A262				
A263				



	QUES.	N/A	YES	NO	REF.
Assure himself that the audit committee or others with equivalent authority and responsibility had been adequately informed with respect to all but clearly inconsequential illegal acts identified during the audit?	A264				
Communicate directly with the audit committee if the illegal act involved senior management and document that communication?	A265				
If SAS Nos. 53 and 54 were not applicable to this engagement, were errors, irregularities, or illegal acts, if any, followed up in accordance with SAS Nos. 16 and 17?	A266				
If SAS No. 59 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor evaluate whether there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time?	A267				
If SAS No. 60 was not applicable to this engagement, were material weaknesses, if any, in internal control communicated to senior management and the board of directors or its audit committee? (SAS No. 20)	A268				
Were reports on internal control, if any, prepared in accordance with SAS Nos. 20 and 30?	A269				
If SAS No. 60 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS):					
Did the auditor communicate reportable conditions to the audit committee or others with equivalent authority and responsibility?	A270				
If the communication was in writing, did the report include all elements required by SAS No. 60?	A271				
If the communication was oral, did the auditor document the communication in the working papers?	A272				

If there is an indication that the auditor, subsequent to the date of his report, became aware that facts may have existed at that date which might have affected his report, had he then been aware of such facts, did he consider the guidance in SAS No. 1, section 561, in determining an appropriate course of action, and does the matter appear to be properly resolved?

QUES. N/A YES NO REF.

A273

If there is an indication that the auditor, subsequent to the date of his report, concluded that one or more auditing procedures considered necessary at the time of the audit of the financial statements in the then existing circumstances were omitted from his audit, did he consider the guidance in SAS No. 46 (AU section 390) in determining an appropriate course of action, and does the matter appear to be properly resolved?

A274

If SAS No. 61 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor:

Assure himself that the appropriate matters were communicated to those with responsibility for oversight of the financial reporting process (SAS No. 61, paragraphs 6 through 14)?

A275

If the communication was in writing, prepare a written report that included a statement that the communication was intended solely for the use of the audit committee or the board of directors and, if appropriate, management?

A276

If the communication was oral, document the information communicated by appropriate memorandum or notations in the working papers?

A277



### III. WORKING PAPER AREAS\*

**NOTE:** In the key audit areas reviewed, the reviewer should evaluate whether the reviewed firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements as described in SAS No. 31. The questions contained in each section represent some of the audit procedures or tests that the reviewed firm might have undertaken to form conclusions in support of financial statement assertions of material significance. If an audit area is not reviewed because it does not represent a key area for that engagement, the reviewer should place an "X" in the box above the name of the working paper area. [As indicated on page AE-4, the reviewer should indicate the reason(s) for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" above the area.]



#### Cash

Were bank accounts confirmed at the examination date and were reconciling items existing at the balance sheet date cleared by reference to subsequent statements obtained directly from the bank (or obtained from the client and appropriately tested)?

Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine that transactions were recorded in the proper period?

Do the working papers indicate that the following were considered:

Restrictions on cash balances?

Confirmation of bank credit arrangements such as compensating balances?

Confirmation of liabilities and contingent liabilities to banks?

QUES.	N/A	YES	NO	REF.
A301				
A302				
A303				
A304				
A305				

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\* Complete only the sections for the key audit areas selected for review.

Based on the evaluation of internal control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of cash appear adequate?

☐

### Receivables

Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternate procedures?

If confirmation work was performed prior to year-end, is there evidence that there was an adequate review of transactions from the confirmation date to the balance sheet date?

If a significant number and amount of accounts receivable were not confirmed, is there evidence that other auditing procedures were performed?

Were significant notes receivable confirmed as of the balance sheet date?

Were the results of confirmation and alternative procedures summarized and were appropriate conclusions drawn in the working papers?

Was collateral (if any) for receivables examined with respect to existence, ownership and value?

Were adequate tests of discounts and allowances made?

Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered?

Was there evidence in the working papers that inquiry was made and consideration given to whether receivables are sold, pledged, assigned or otherwise encumbered?

Was receivable work coordinated with the tests of support and revenue, including cutoff tests?

Were procedures performed to verify whether the carrying value of notes receivable reflects the present value of the consideration given and the appropriate interest rate?

QUES.	N/A	YES	NO	REF.
A306				
A307				
A308				
A309				
A310				
A311				
A312				
A313				
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A315				
A316				
A317				

Based on the evaluation of internal control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of receivables appear adequate?

☐

### Inventories

Where the physical inventory is taken at a date other than the balance sheet date (or where rotating procedures are used), do the working papers indicate that consideration was given to inventory transactions between the inventory date(s) and the balance sheet date?

Do the working papers contain evidence that counts were correctly made and recorded (i.e., was control over inventory tags or count sheets maintained and were test count quantities reconciled with counts reflected in final inventory)?

Were physical inventories observed at all locations where relatively large amounts are located?

Where the physical inventory in the hands of others was not observed, were inventory confirmations received [i.e., inventory in public warehouses (SAS No. 43), on consignment, etc.]?

If perpetual inventory records are maintained, do the working papers indicate that differences disclosed by the client's physical inventory (or cycle counts) are properly reflected in the accounts?

Do the working papers indicate that there were adequate tests of:

The clerical accuracy of the compilation of the inventory?

Costing methods and substantiation of costs used in pricing all elements (raw materials, work in process, finished goods) of the inventory?

Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?

QUES.	N/A	YES	NO	REF.
A318				
A319				
A320				
A321				
A322				
A323				
A324				
A325				
A326				

Where LIFO is used, did the auditor consider whether the client's LIFO techniques are generally consistent with those in the AICPA's issues paper on LIFO?

Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?

Were inquiries concerning purchase and sales commitments made, including consideration as to any possible adverse effects?

Were appropriate inventory cut-off tests performed?

Where applicable, were gross profit percentage tests employed to check overall valuation of inventories?

Do the working papers indicate that steps were performed to determine if any inventory is pledged?

Based on the evaluation of internal control, or, if early application of SAS No 55 was elected, based on the assessment of control risk, do the substantive tests of inventory appear adequate?



### Investments

Was a summary schedule prepared (or obtained) and details examined with respect to description, purchase price and date, changes during period, income, market value, etc. of investments?

Were all securities either examined or confirmed?

Were realized gains and losses on disposition of securities properly computed?

Do the working papers reflect consideration of the appropriateness of carrying values of securities and their classification?

Were investigation of carrying value and possible impairment of the carrying value of long-term investments made?

Do the working papers reflect consideration that investments were pledged, restricted, or had limitations on their immediate use?

QUES.	N/A	YES	NO	REF.
A327				
A328				
A329				
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A339				

For investments accounted for on the equity method, were financial statements and other information reviewed to support the amounts presented or the footnote disclosures made?

For repurchase and reverse repurchase agreements, were appropriate audit procedures performed? (e.g., confirmation, inspection of collateral)



Prepaid Expenses, Intangible Assets, Deferred Charges, etc.

Were adequate tests made and/or confirmations received for all material:

Prepaid expenses?

Intangible assets?

Deferred charges?

Other?

Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets ?

Were reviews made of the continuing value of goodwill and other intangible assets?

If insurance policies were pledged as collateral or subjected to premium financing, were the related loans properly accounted for?



Property, Plant and Equipment

Was a summary schedule prepared (or obtained) to show beginning balances, changes during the period and ending balances for:

Property, plant and equipment?

Accumulated depreciation?

QUES.	N/A	YES	NO	REF.
A340				
A341				
A342				
A343				
A344				
A345				
A346				
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A348				
A349				
A350				



Do tests appear adequate and were proper conclusions drawn with respect to:

Additions (by the examination of supporting documents and/or physical inspection)?

Retirements, etc. (including examination of miscellaneous income, scrap sales)

The adequacy of current and accumulated provisions for depreciation and depletion?

Status of idle facilities?

Do the working papers indicate that the auditor considered the possibility that property was subject to liens?

Based on the evaluation of internal control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of property, plant and equipment appear adequate?



#### Liabilities

Were accounts payable adequately tested for propriety?

Were liabilities properly classified as current or long-term at the balance sheet date?

Was an adequate search performed for unrecorded liabilities at the balance sheet date?

Was the payables work coordinated with the testing of the purchases cut-off?

Was consideration given to expenditures and expenses that might require accrual (e.g., pensions or compensated absences), and to whether accrued expenses were reasonably stated?

Were significant notes and bonds payable, together with interest rates and repayment periods, etc. confirmed?

Were procedures performed to verify whether the carrying value of notes payable reflects the present value of the consideration received and the appropriate interest rate?

QUES.	N/A	YES	NO	REF.
A351				
A352				
A353				
A354				
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A356				
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A361				
A362				
A363				

Is there evidence of testing of the company's compliance with covenants to debt obligations?

Based on the evaluation of internal control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of liabilities appear adequate?



#### Deferred Credits

Do the working papers indicate that:

The basis of deferring income is reasonable and on a consistent basis from year to year?

Deferrals have been established on a reasonable basis?

#### Income Taxes

Were the current and deferred tax accrual accounts and related provisions analyzed and appropriate auditing procedures performed?

Do the working papers contain evidence that, in determining the adequacy of the income tax accruals and provisions, appropriate consideration was given to possible adjustments required for:

Tax positions taken by the client that might be challenged by the taxing authorities and/or other tax contingencies?

Possible assessments, penalties or interest including similar adjustments applicable to years not yet examined?

Based upon the review of the financial statements and working papers and, if necessary, discussions with engagement personnel, does it appear as though substantive tax matters applicable to this engagement were given adequate consideration?

QUES.	N/A	YES	NO	REF.
A364				
A365				
A366				
A367				
A368				
A369				
A370				
A371				

QUES.	N/A	YES	NO	REF.
<input type="checkbox"/> <p><u>Commitments and Contingencies</u></p> <p>Do the working papers include indication of the following:</p> <p>Inspection of minutes of meetings of the stockholders, board of directors, and executive and other committees of the board?</p> <p>Inspection of contracts, loan agreements, leases, and correspondence from taxing and other governmental agencies, and similar documents?</p> <p>Accumulation and analysis of confirmation responses from banks and lawyers?</p> <p>Inquiry and discussion with management including management's written representations concerning liabilities, litigation, claims, assessments and regulatory requirements as applicable?</p> <p>Other contingent liabilities (such as buy/sell agreements) for possible guarantees?</p> <p>Is there indication that procedures were performed to uncover the need for recording or disclosure of events subsequent to the date of the financial statements? (SAS No. 1, sections 560.10, 560.11 and 560.12)</p> <p>Have all material contingencies been properly considered, documented, and reported? (SFAS Nos. 5 and 16)</p> <input type="checkbox"/> <p><u>Capital Accounts</u></p> <p>Were changes in capitalization checked to authorizations?</p> <p>Do the working papers indicate that there were adequate inquiries, where appropriate, about stock options, warrants, rights, redemptions and conversion privileges?</p>				
A372				
A373				
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A380				

Income and Expenses

Were tests of payrolls, including account distribution, made?

Concerning pension and profit sharing plans (including impact of ERISA), do tests made of the expenses and liabilities appear adequate?

Were revenue and expenditures and/or expenses for the period compared to the budget and the preceding period and reviewed for reasonableness and were significant variances and fluctuations explained?

Was adequate consideration given to:

The client's revenue recognition policy?

Income recognition on transactions where the earnings process was not complete?

Unusual sales transactions?

Income recognition when the right of return exists?

Based upon the evaluation of internal control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, did the substantive tests (review, analysis, and testing) of revenue and expenditures/expenses appear adequate?

Other

Have leases been reviewed to determine that capital, sales, and direct financing leases have been properly accounted for?

Were appropriate procedures applied to supplementary information?

Limited Review of Interim Financial Information:

Were appropriate procedures performed? (SAS No. 36, paragraphs 6 and 9 through 15)

QUES.	N/A	YES	NO	REF.
A381				
A382				
A383				
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A391				

	QUES.	N/A	YES	NO	REF.
If required by firm policy, was a checklist of the above procedures used?	A392				
If the work of a specialist was used, did the auditor apply the guidance in SAS No. 11, paragraphs 9 through 12?	A393				
Were specific procedures for determining the existence of related parties and examining identified related party transactions applied? (SAS No. 45)	A394				
If consolidated statements are presented:					
Have intercompany balances and transactions been eliminated?	A395				
If the financial reporting periods of one or more subsidiaries differ from that of the parent, was recognition given to the effect of intervening events that materially affect financial position or the results of operations?	A396				
Was appropriate consideration given to the carrying value of long-term contracts in relation to their contract prices, estimated costs to complete, and degree of completion?	A397				
Was appropriate consideration given to the accounting for (including the disclosure of) futures, forwards, and standby contracts?	A398				

#### IV. FUNCTIONAL AREAS

##### Independence

If any evidence was noted during the review which may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered?

QUES. N/A YES NO REF.

A501

Have personnel been appropriately advised as to need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate?

A502

Was timely and appropriate assurance of independence of other firms engaged to audit segments or component units of the entity?

A503

For non-SEC clients, were the fees for the prior year's services paid prior to issuance of the report for the current engagement?

A504

For SEC clients, if the fees for the prior year's services were not paid prior to the commencement of the current engagement, were the SEC rules for unpaid professional fees adhered to?

A505

##### Assigning Personnel to Engagements

Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel?

A506

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided?

A507

##### Consultation

Was there appropriate consultation and documentation:

In situations specified by firm policy?

A508

Where the complexity or unusual nature of the issue warranted it?

Were the firm's conclusions consistent with professional standards?

If the engagement records indicated a difference of opinion between engagement personnel and a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented?

Supervision

Were appropriate and knowledgeable engagement personnel involved in the planning process?

Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan?

Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey his approval or modifications to the engagement staff?

Does it appear that hours charged by the partner, manager, and, where applicable, by the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed?

Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

    Planning checklist?

    Review of internal control structure:

        Manual system?

        EDP system?

    Audit work programs?

    Financial statement disclosures?

    Working papers and financial statement reviews?

QUES.	N/A	YES	NO	REF.
A509				
A510				
A511				
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A521				

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?

Were the firm's guidelines for the form and content of audit working papers complied with?

Were differences of professional opinion between engagement personnel resolved in accordance with firm policy?

If used, were scientific audit tools (e.g., computer auditing, statistical sampling, etc.) properly evaluated by persons with training in these areas? (SAS No. 48)

If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that work performed was complete and conformed to professional standards and firm policy and was that review documented?

#### Advancement

If required by firm policy, was the staff on this engagement appropriately evaluated?

#### Acceptance and Continuance of Clients

Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?

#### Professional Development

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, GASB, AICPA, SEC, etc.)?

QUES.	N/A	YES	NO	REF.
A522				
A523				
A524				
A525				
A526				
A527				
A528				
A529				





## V. AUDITS OF SEC ENGAGEMENTS

(As defined in Section 1 of the SECPS Manual)

	QUES.	N/A	YES	NO	REF.
If required by firm policy, was an SEC checklist or other specialized checklist used?	A601				
Were disclosures required by SEC Regulation S-X appropriate?	A602				
Is there indication that the firm obtained and read the document to be filed prior to the release of the signed opinion to be contained in the filing?	A603				
Was a concurring review by a partner other than the audit partner in charge of the engagement conducted prior to the issuance of the report, in conformity with the firm's requirements?	A604				
If a concurring partner review was performed:					
Was the review conducted by a partner with sufficient technical expertise and experience?	A605				
Were the nature, extent, and timing of the review procedures adequate in the circumstances?	A606				
Did the engagement files contain evidence that the firm's policies and procedures for the concurring review were complied with?	A607				
Was the concurring partner review effective?	A608				
If a comfort letter to an underwriter was issued, is it in accordance with professional standards? (SAS No. 49)	A609				
Have letters of comments or verbal comments received from the SEC or other regulatory agencies been appropriately considered?	A610				
Has there been rotation of the audit partner in charge of the engagement in conformity with the requirements of the SEC Practice Section?	A611				
If management advisory services were performed during the year under audit, was the firm in compliance with the Section's requirements:					

	QUES.	N/A	YES	NO	REF.
Proscribing the performance of certain management advisory services?	A612				
Requiring an annual report to the audit committee or board of directors of the client, describing the types of such services rendered and the amount of the related fees received?	A613				
Was the nature of disagreements, if any, with the management of the client on financial accounting and reporting matters and auditing procedures which, if not satisfactorily resolved, would have caused the issuance of a qualified opinion reported to the audit committee or board of directors of the client in conformity with the Section's requirements? (4)	A614				
Were the following matters, if they came to the attention of the auditor, communicated at least annually to the audit committee or board of directors of the client and were such communications documented in the working papers:					
Material errors, irregularities, or possible illegal acts?	A615				
Material weaknesses in internal accounting controls?	A616				
Opinions obtained by management from other independent accountants on the application of generally accepted accounting principles that would affect the entity's financial statements or on the type of opinion that may be rendered on the entity's financial statements and that are subject to the requirements of SAS No. 50, and the conclusions reached by management and by the auditor with respect to the matters covered by such opinions?	A617				

---

(4) If early application of SAS No. 61 was elected, the reviewer should answer questions A613-A619 "N/A".

Accounting and disclosure considerations associated with material contingencies, together with the nature and reasonableness of the underlying assumptions and estimates of management?

QUES. N/A YES NO REF.

A618				

Accounting and disclosure decisions with respect to transactions that are unusual in nature and have a material effect on the financial statements?

A619				

Situations involving the adoption of or change in an accounting principle where the application of an alternative generally accepted accounting principle would have had a material effect on the financial statements?

A620				



## VI. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

- 
- \* The nature of the disposition of comments may vary, such as:
- o Note "resolved" and the manner of resolution.
  - o Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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## VII. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

1. The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202)? YES\* ☐ NO ☐
2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified (see AU 561 and ET 203)? YES\* ☐ NO ☐
3. The auditor's report was not appropriate in the circumstances? YES\* ☐ NO ☐
4. The documentation on this engagement does not support the firm's opinion on the financial statements? YES ☐ NO ☐
5. The firm did not comply with its policies and procedures on this engagement in all material respects? YES ☐ NO ☐

---

\* If this question is answered "yes," see additional guidance contained on pages 2-20 and 2-21 of the SECPS Manual and of the PCPS Peer Review Manual.



MATTER FOR FURTHER CONSIDERATION

CONTROL NO. \_\_\_\_\_

REVIEWER'S DESCRIPTION OF THE MATTER

REVIEWED FIRM AGREES WITH THE DESCRIPTION OF THE MATTER? YES \_\_\_\_ NO \_\_\_\_

REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

REVIEWER'S ADDITIONAL COMMENTS Check One: Design \_\_\_\_\_  
Performance \_\_\_\_\_  
Compliance-Membership \_\_\_\_\_  
Compliance-Other \_\_\_\_\_  
Documentation \_\_\_\_\_

(Note: This sample MFC form has been reduced in size. The actual form is 8 1/2" x 14" and is available from the Quality Control Review Division staff.)

TEAM CAPTAIN'S COMMENTS, IF ANY

-----  
FIRM \_\_\_\_\_  
OFFICE CODE NO. \_\_\_\_\_

CONTROL NO. \_\_\_\_\_

Signatures

Dates

Engagement Partner \_\_\_\_\_

Reviewer \_\_\_\_\_

Team Captain \_\_\_\_\_

Program Questionnaire

Engagement

Section \_\_\_\_\_  
Element \_\_\_\_\_  
Program Step \_\_\_\_\_

No. \_\_\_\_\_  
Checklist Page \_\_\_\_\_  
Program Step \_\_\_\_\_

## INSTRUCTIONS FOR USE OF MFC FORMS

1. If an MFC was prepared during the course of the review and subsequent information indicates that the form should not have been prepared, it may be discarded. (For example, an MFC may be discarded if it stated that no letter was received from legal counsel, but an acceptable letter had been received and misfiled and was subsequently found. Similarly, an MFC may be discarded if it stated that documentation in a particular area was inadequate, but the reviewer reconsidered and decided that documentation was adequate.) On the other hand, if an MFC is prepared for a matter which is valid, the MFC should not be discarded even though it is subsequently decided that the matter need not be covered in the letter of comments.
2. Number MFCs consecutively (top and bottom) to establish correspondence between top and bottom stub.
3. MFCs relating to both functional and engagement review areas should be sorted by nature of comment.
4. Do not detach control stub until POB oversight is completed. (The stub should be detached only if the SEC accesses the working papers.)



As Revised - 1990

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

CHECKLIST FOR REVIEW OF AUDIT ENGAGEMENTS  
OF STATE OR LOCAL GOVERNMENTAL  
ENTITIES, INCLUDING THOSE RECEIVING  
FEDERAL FINANCIAL ASSISTANCE

(SEE SEPARATE INSTRUCTIONS INSIDE FOR USE OF THIS CHECKLIST)

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1211 Avenue of the Americas, New York, NY 10036-8775



Instructions for Use of Checklist  
for Review of Audit Engagements  
of State or Local Governmental Entities,  
Including Those Receiving Federal Financial Assistance

This checklist was developed for use by reviewers of audits of state and local governments, including those entities that receive federal financial assistance. It should be used in conjunction with other guidance materials issued to implement the peer review program of the AICPA Division for CPA Firms. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division staff member who initially contacted you or to the Quality Review Division at 212/575-6650.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the examination of financial statements of state and local governmental units. This checklist can be used in reviewing the audit of the general purpose financial statements, the comprehensive annual financial report, or component unit financial statements. The reviewer, however, should recognize that this checklist does not address certain items contained in the comprehensive annual financial report, such as the introductory section and nonfinancial statistical information.

The questions have been derived principally from the pronouncements of the Auditing Standards Board, the Governmental Accounting Standards Board, the U.S. General Accounting Office's Government Auditing Standards, and the AICPA Audit and Accounting Guide, Audits of State and Local Governmental Units.

In using this checklist, reviewers will have to contend with differing effective dates of the various pronouncements. Reproduced below are paragraphs 92 and 93 of SAS No. 63 ("Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance") providing information on the effective dates and transitional guidance:

92. Except as stated below, the provisions of this statement are effective for audits of financial statements and of compliance with laws and regulations for fiscal periods beginning on or after January 1, 1989. The provisions in paragraphs 11, 15, 34, 37g and 58 through 62 of this statement, which are based on the principles contained in SAS No. 55, "Consideration of the Internal Control Structure in a Financial Statement Audit," are effective for audits of financial statements and of compliance with laws and regulations for fiscal periods beginning on or after January 1, 1990. Early application of this statement is permissible.
93. Government Auditing Standards is effective "for audits starting January 1, 1989." Unless the GAO excludes AICPA standards by formal announcement, Government Auditing Standards incorporates the AICPA statements on auditing standards and their respective effective dates. Thus, neither Government Auditing Standards nor this statement re-

quires early application of any AICPA standard that has a later effective date. Auditors who do not elect to apply this statement before its effective date should consider the guidance contained in the AICPA Audit and Accounting Guide Audits of State and Local Governmental Units (1986 revised edition).

Thus, although Government Auditing Standards requires the auditor to apply SAS Nos. 53 ("The Auditor's Responsibility to Detect and Report Errors and Irregularities"), 54 ("Illegal Acts by Clients"), and 55 ("Consideration of the Internal Control Structure in a Financial Statement Audit"), neither Government Auditing Standards nor SAS No. 63 requires auditors to apply those pronouncements before their specified effective dates. Auditors not applying either SAS Nos. 53, 54, or 55 early should continue to apply SAS Nos. 16 and 17 and AU Section 320 until the effective dates of the new pronouncements.

The checklist contains Appendix B devoted solely to the special requirements of the Single Audit Act of 1984 (the Single Audit Act) and is based on the requirements established in the Office of Management and Budget's Circular No. A-128 (OMB A-128) and Government Auditing Standards (Appendix A).

To assist the reviewer in summarizing "no" answers in the Summary Checklist for Reviews of Audit Engagements, a column has been added containing sequential numbers referring to each question. Question numbers prefixed with the letter "A," such as "A101," refer to questions so numbered in the Checklist for Review of Audit Engagements. Question numbers prefixed with the letter "G," such as "G101," refer to questions on matters unique to governmental entities. Reviewers should summarize the "no" answers of the "A" prefixed questions with those drawn from the Checklist for Review of Audit Engagements in the Summary Checklist for Reviews of Audit Engagements. Reviewers should summarize the "G" prefixed questions in the appropriate appendix at the end of each section in the Summary Checklist.

Reviewers may adapt this checklist to fit specific engagements. If a not-for-profit entity is required to submit reports prepared in accordance with the Single Audit Act, the reviewer should complete and attach Appendix B of this checklist to the Checklist for Review of Audit Engagements of Not-for-Profit Organizations, in lieu of the latter's Section III ("Audits of Governmental Grantees"). In addition, certain entities which are neither governmental nor not-for-profit organizations may have to submit reports prepared in accordance with the Single Audit Act. In reviewing those engagements, reviewers should complete and attach Sections I and III of this checklist to the Checklist for Review of Audit Engagements.

### ENGAGEMENT PROFILE

Engagement Code No. \_\_\_\_\_ Office \_\_\_\_\_  
Partner \_\_\_\_\_ Date of Financial Statements\* \_\_\_\_\_  
Manager \_\_\_\_\_ Date of Report \_\_\_\_\_  
Concurring Reviewer\*\* \_\_\_\_\_ Date Report Released \_\_\_\_\_

The responsibility of this office involves reporting on:

- ( ) Comprehensive Annual Financial Report (CAFR)
- ( ) General Purpose Financial Statements (GPFS)
- ( ) Component Unit Financial Report (CUFR)
- ( ) Component Unit Financial Statements (CUFS)
- ( ) Special reports
- ( ) Other (explain) \_\_\_\_\_
- ( ) Internal Control and Compliance (pursuant to the Single Audit Act)

Was the work performed at the request of another office? Yes\_\_ No\_\_

Date that the fee for the prior year's engagement was paid \_\_\_\_\_

Key data reported on by this office for this engagement:

Total combined governmental fund type revenues (Memorandum total)	\$ _____
Total combined proprietary fund type revenues (Memorandum total)	\$ _____
Total combined assets (Memorandum total)	\$ _____
Total amount of federal assistance received***	\$ _____

General description of audited entity:

Complex or troublesome audit areas:

Audit hours on this engagement:

	<u>Total</u>	<u>Prior to Commencement of Field Work</u>	<u>During Field Work</u>	<u>After Completion of Field Work</u>
Partner	_____	_____	_____	_____
Manager (or equivalent)	_____	_____	_____	_____
Senior	_____	_____	_____	_____
Concurring Reviewer**	_____	_____	_____	_____
Other	_____	_____	_____	_____
Total this office	_____	_____	_____	_____
Total budgeted	_____	_____	_____	_____

\* To determine the applicability of all cross-referenced pronouncements, their effective dates should be considered.

\*\* Not applicable unless required by firm policy.

\*\*\* This amount should include "pass through" federal assistance received indirectly from another state or local government.

LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is left to the judgment of the reviewers; however, the review is directed primarily to the key areas of an engagement, including complex, or troublesome areas. Ordinarily, all key audit areas should be reviewed. List below the key areas on this engagement and, if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II, III and V should be answered in addition to the key areas identified.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

Date Engagement Review Performed \_\_\_\_\_

Reviewer \_\_\_\_\_

Date Checklist Reviewed  
by Team Captain \_\_\_\_\_

Signature \_\_\_\_\_

CHECKLIST FOR REVIEW OF AUDIT ENGAGEMENTS  
OF STATE OR LOCAL GOVERNMENTAL ENTITIES

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NOTE: This checklist has been updated through  
SAS No. 63, SFAS No. 102, FASB Inter-  
pretation No. 38, GASBS No. 8, and the GAO's  
Government Auditing Standards  
(1988 Revision).

## I. REPORT AND FINANCIAL STATEMENTS

NOTE: This checklist is derived from the pronouncements of the Governmental Accounting Standards Board (GASB), the U.S. General Accounting Office (GAO) and the AICPA. For detailed information concerning these requirements, the reviewer may wish to consult the authoritative literature of the above noted organizations as well as the AICPA financial reporting aid, Disclosure Checklists and Illustrative Financial Statements for State and Local Governmental Units. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

References to professional pronouncements have been provided in Sections I, II, and III because of recent significant changes in governmental reporting and auditing. The term "GAO" followed by the chapter and paragraph refers to Government Auditing Standards (1988 Revision). The term "ASLGU" refers to the AICPA Audit and Accounting Guide Audits of State and Local Governmental Units (1986 Revised Edition).

### Auditor's Reports

Do(es) the auditor's report(s) on the general purpose or component unit financial statements include all required matters concerning the financial position and results of financial operations of the governmental unit and, where required, changes of financial position of proprietary funds or cash flows?

Is the report dated in conformity with the requirements of professional standards?

If required by the circumstances, does the auditor's report depart from the standard report and include appropriate language describing the departure?

If supplementary information, accompanies the basic financial statements, does the auditor describe in his report the degree of responsibility, if any, he is taking?

For engagements subject to Government Auditing Standards, has the reviewer completed Appendix A?

QUES.	N/A*	YES	NO	REF.**
G101				
A101				
A103				
A104				

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

For engagements subject to the Single Audit Act,  
has the reviewer completed Appendix B?

Financial Statements and Footnotes

General

Are all financial statements suitably titled?

Are the following general purpose or component unit  
financial statements presented:

Combined Balance Sheet - All Fund Types and  
Account Groups?

Combined Statement of Revenues, Expenditures,  
and Changes in Fund Balances - All Governmen-  
tal Fund Types and expendable trust funds?

Combined Statement of Revenues, Expenditures,  
and Changes in Fund Balances - Budget and  
Actual - General and Special Revenue Fund  
Types (and similar governmental fund types  
for which annual budgets have been legally  
adopted)?

Combined Statement of Revenues, Expenses, and  
Changes in Retained Earnings (or Equity) - All  
Proprietary Fund Types and similar trust funds?

Combined Statement of Changes in Financial  
Position or Cash Flows - All Proprietary Fund  
Types?

Do the combined financial statements contain all  
funds and account groups that comprise the reporting  
entity, as defined in the footnotes?

If totals by account are presented in the General  
Purpose Financial Statements, are the totals noted  
as memorandum only?

If the auditor is expressing an opinion on summa-  
rized comparative information of the prior period,  
does the prior period's information contain suffi-  
cient detail to constitute a fair presentation in  
conformity with generally accepted accounting prin-  
ciples?

Do interfund receivables equal interfund payables or  
are the differences explained in the notes?

QUES.	N/A	YES	NO	REF.
A111				
G102				
G103				
G104				
G105				
G106				
G107				
G108				
G109				
G110				



QUES. N/A YES NO REF.

Are transfers to other funds recorded either as residual equity or operating transfers, as appropriate?

G111

Are special assessment receivables offset by deferred revenue?

G112

Are taxes and other similar receivables appropriately recorded and disclosed net of uncollectible receivables?

G113

If separate financial statements of a component unit are issued, is the relationship of the component unit to the reporting or oversight entity disclosed?

G114

If a general fund is presented:

Are the statements prepared on the modified accrual basis?

G115

Are significant sources of general fund revenues disclosed?

G116

Are expenditures classified by function?

G117

If special revenue funds are presented:

Are the statements prepared on the modified accrual basis?

G118

Do the statements disclose the significant revenues and expenditures of each fund type?

G119

If debt service funds are presented:

Are the statements prepared on the modified accrual basis?

G120

Do the statements disclose the significant revenues and expenditures of each fund type?

G121

If capital project funds are presented:

Are the statements prepared on the modified accrual basis?

G122

Do the statements disclose the significant revenues and expenditures of each fund type?

G123

If enterprise funds are presented:

Are the statements prepared on the accrual basis?

G124

	QUES.	N/A	YES	NO	REF.
Is the enterprise fund's liability for general obligation and special assessment debt, if any, included in the enterprise fund's financial statements?	G125				
Are the restricted assets, liabilities payable from restricted assets, and portion of retained earnings required to be segregated for debt service separately disclosed?	G126				
Is the amount of contributed assets by source separately disclosed as contributions on the balance sheet?	G127				
Are operating and nonoperating revenues and expenses separately classified? (Federal and other grants for operations should be recognized as nonoperating revenues.)	G128				
If internal service funds are presented:					
Are the statements prepared on the accrual basis?	G129				
Do the financial statements present the net billings to other funds as revenues and the related costs as expenses?	G130				
Are long-term advances segregated from current amounts payable to other funds?	G131				
If nonexpendable and/or pension trust funds are presented:					
Are the statements prepared on the accrual basis?	G132				
Are the principal and income portions of trust fund equity classified in accordance with the trust document?	G133				
If agency funds are presented:					
Are the balance sheets prepared on the modified accrual basis?	G134				
If expendable trust funds are presented:					
Are the statements prepared on the modified accrual basis?	G135				

	QUES.	N/A	YES	NO	REF.
Do the financial statements disclose the significant revenues and expenditures of each fund?	G136				
If a general fixed assets account group is presented:					
Are land, buildings, equipment, and construction-in-progress separately classified?	G137				
Where general fixed assets are depreciated, does the statement show the accumulated depreciation?	G138				
If a general long-term debt account group is presented:					
Are general obligation term bonds and serial bonds separately disclosed?	G139				
Are other long-term liabilities (accrued vacation, leases, workers' compensation, etc.) separately disclosed?	G140				
Questions G141 through G168 should be answered only if the combining or individual fund financial statements are presented as primary financial statements. The reviewer should evaluate if the fund statements were complete in presentation of each fund or account group.					
Are the following financial statements presented, if necessary:					
General fund:					
Balance sheet?	G141				
Statement of revenues, expenditures and changes in fund balance?	G142				
Statement of revenues, expenditures and changes in fund balance - budget vs. actual?	G143				
Special revenue funds:					
Balance sheet?	G144				
Statement of revenues, expenditures and changes in fund balance?	G145				

	QUES.	N/A	YES	NO	REF.
Statement of revenues, expenditures and changes in fund balances - budget vs. actual?(1)	G146				
Debt service funds:					
Balance sheet?	G147				
Statement of revenues, expenditures and changes in fund balances?	G148				
Statement of revenues, expenditures and changes in fund balances - budget vs. actual?(1)	G149				
Capital project funds:					
Balance sheet	G150				
Statement of revenues, expenditures and changes in fund balances?	G151				
Statement of revenues, expenditures and changes in fund balances - budgeted vs. actual?(1)	G152				
Enterprise funds:					
Balance sheet?	G153				
Statement of revenues, expenses and changes in retained earnings?	G154				
Statement of changes in financial position or statement of cash flows?	G155				
Internal service funds:					
Balance sheet?	G156				
Statement of revenues, expenses and changes in retained earnings?	G157				
Statement of changes in financial position or statement of cash flows?	G158				
Nonexpendable and pension trust funds:					
Balance sheet?	G159				

(1) This question is applicable for those funds required to adopt a budget.

	QUES.	N/A	YES	NO	REF.
Statement of revenues, expenses and changes in fund balances?	G160				
Statement of changes in financial position or statement of cash flows?	G161				
Agency funds:					
Balance Sheet?	G162				
Combining statement of changes in assets and liabilities, if appropriate?	G163				
Expendable trust funds:					
Balance sheet?	G164				
Statement of revenues, expenditures and changes in fund balances?	G165				
Statement of revenues, expenditures and changes in fund balances - budget vs. actual?(2)	G166				
If required, is a statement of general fixed assets presented?	G167				
If required, is a statement of general long-term debt presented?	G168				
<u>Other Footnote Disclosures</u>					
Is the presentation appropriate and are disclosures adequate regarding the following significant accounting policies:					
Definition of the governmental reporting entity, the criteria used to determine the scope of the reporting entity and specific reasons for excluding agencies that meet those criteria?	G169				
Basis of accounting applied to each fund?	G170				
Revenue recognition policies, including:					
Definitions of modified accrual basis as to governmental fund types and of accrual basis as to proprietary fund types?	G171				

(2) This question is applicable for those funds required to adopt a budget.

	QUES.	N/A	YES	NO	REF.
Description of revenue sources that are treated as "susceptible to accrual" under the modified accrual basis and those that are not?	G172				
Accounting for fixed assets concerning:					
Classification in proprietary funds or general fixed assets account group?	G173				
Valuation basis of fixed assets, including capitalization policies for public domain (infrastructure) general fixed assets?	G174				
Depreciation methods and lives, including whether depreciation is reported on general fixed assets?	G175				
Capitalization of interest costs during construction?	G176				
Method of accounting and reporting for encumbrances?	G177				
Claims and judgments?	G178				
Interfund eliminations not apparent?	G179				
Long-term liabilities related to proprietary funds, nonexpendable trust and pension funds, and special assessment debt? (Long-term liabilities expected to be repaid from governmental funds are accounted for in the General Long-Term Debt Account Group.)	G180				
Valuation basis and significant or unusual accounting treatment for other assets, liabilities, and fund equity?	G181				
Significant accounting policies on expenditures?	G182				
Statement that the "total" columns, if any, on GPFS or CUFS are presented for analytical purposes only?	G183				
Basis on which each budget is prepared, including:					
Treatment of encumbrances?	G184				
Whether appropriations lapse at year end?	G185				

	QUES.	N/A	YES	NO	REF.
Explanation of the differences, if any, between the budgetary basis and accrual or modified accrual basis used for financial reporting of governmental funds?	G186				
Whether presented budgetary information has been amended?	G187				
Separate summary of significant accounting policies for discrete presentations?	G188				
Is the presentation appropriate and are disclosures adequate regarding the following:					
Classified balance sheets, where appropriate?	G189				
Accounting changes?	A113				
Retirement plans?	A131				
Postretirement health care and life insurance benefits?	A132				
Deferred compensation plans adopted under IRC 457?	G190				
Related party transactions?	A119				
Nonmonetary transactions?	A122				
Segment information for enterprise funds (GASB 2500)?	A134				
Capital and operating leases of lessees?	G191				
Detail of the government's property tax calendar, including the lien, levy, due and collection dates?	G192				
Material noncompliance with finance-related legal and contractual provisions, including instances concerning budget amendments, expenditures exceeding appropriations, and debt exceeding legal limitations?	G193				
Valuation allowances?	A138				
Restricted cash, including compensating balances?	A139				

	QUES.	N/A	YES	NO	REF.
Deposits with financial institutions and investments, including risk categories, uninsured deposits, and other disclosures required by GASB No. 3?	G194				
Terms or circumstances concerning repurchase or reverse repurchase agreements?	G195				
Receivables:					
Loans or advances to other funds of the governmental units?	G196				
Taxes receivable?	G197				
Grant and other receivables from other governments?	G198				
Effect of interest rates which do not reflect market rates?	A144				
Receivables related to troubled debt restructurings?	A145				
Other receivables?	A146				
Inventories?	A147				
Joint ventures and other investments?	G199				
Pooled cash and investment accounts?	G200				
Fixed assets, including changes during the period and capitalized interest?	G201				
Sales-type, direct financing, and operating leases of lessors?	A150				
Other assets, including intangible assets and deferred charges?	A151				
Pledged assets?	A152				
Short-term liabilities expected to be refinanced?	A154				
Notes payable, bond, tax, and revenue anticipation notes, and other debt:					
Maturities and rates?	A155				
Other terms and covenants?	A156				



	QUES.	N/A	YES	NO	REF.
Special assessment debt and related activities?	G202				
Effect of interest rates which do not reflect market rates?	A157				
Effect of troubled debt restructurings?	A158				
Effect of early extinguishment of debt?	A159				
Loans or advances from other funds of the governmental unit?	G203				
Debt service requirements to maturity?	G204				
Changes during the period including advance refundings resulting in defeasance of debt?	G205				
Unpaid debt that has been fully defeased?	G206				
Sinking fund contributions required as of year end?	G207				
Demand notes?	G208				
Compensation for future absences and special termination benefits for employees?	G209				
Designation or reservations or other restrictions of fund balances or retained earnings?	G210				
Revenues, expenses and expenditures:					
Grants, entitlements, and shared revenue?	G211				
Investment income?	G212				
Interest cost?	A175				
Depreciation?	A177				
Discontinued operations?	A189				
With respect to contingencies and commitments:					
Are loss contingencies disclosed and/or accrued?	A123				
Are construction commitments and other significant commitments and contingencies, adequately disclosed?	A124				

Deficit fund balances or retained earnings of individual funds?

Interfund receivables and payables?

Are the nature and amount of inconsistencies in the financial statements caused by transactions between component units having different year ends properly disclosed?

Are the financial statements, where appropriate, adjusted for the effects of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?

Other

Are the statement presentations and disclosures generally consistent with GASB pronouncements and the AICPA's Audits of State and Local Governmental Units?

QUES.	N/A	YES	NO	REF.
G213				
G214				
G215				
G216				
A201				

## II. GENERAL AUDIT PROCEDURES

	QUES.	N/A	YES	NO	REF.
In planning the audit engagement, did the auditor properly consider:					
Matters affecting the industry in which the entity operates, such as accounting practices, economic conditions, laws and governmental regulations and technological changes? (SAS Nos. 22 and 63)	A202				
Definition of the reporting entity indicating the related organizations, functions, and activities that are either included or excluded from the financial statements in accordance with GASB Cod. Sec. 2100?	G250				
Preliminary judgment about materiality levels for audit purposes? (SAS No. 47)	A204				
Anticipated reliance on internal accounting controls? (AU Section 311) (3)	A205				
If SAS No. 53 was not applicable to this engagement, conditions that may require extension or modification of audit tests, such as the possibility of material errors or irregularities and management's ability to override controls? (SAS No. 16)	A206				
Factors affecting the continued functioning of the government, such as legal limitations on revenue, expenditures, or debt service?	G251				
If the auditor succeeded a predecessor accountant, did he:					
Communicate with the predecessor accountant to ascertain whether there were disagreements between the predecessor accountant and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client?	A207				
Make other inquiries of the predecessor accountant on significant matters?	A208				

- (3) If early application of SAS No. 55 was elected, the reviewer should answer this question "N/A" and answer Questions A216 through A220.

	QUES.	N/A	YES	NO	REF.
Satisfy himself on the fair presentation of opening balances, such as by reviewing the predecessor accountant's working papers?	A209				
If consideration was given to the work of internal auditors in determining the scope of the examination, was it done in accordance with SAS No. 9?	A210				
If the engagement included work performed by joint auditors or by another office, correspondent, or affiliate of the firm:					
Do the instructions to the other office or firm appear adequate?	A211				
Does it appear that the control exercised over the work of others through supervision and review was adequate?	A212				
Was there appropriate follow-up of open matters?	A213				
In those cases where another firm is used, were appropriate inquiries made as to its independence and professional reputation?	A214				
For a jointly signed audit report, are there indications that the auditor has conducted sufficient audit procedures to warrant signing the report in an individual capacity (ASLGU, ch. 18, par. 42)?	G252				
If SAS No. 56 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor use analytical procedures in planning the nature, timing and extent of other audit procedures?	A215				
If early application of SAS No. 55 was elected, did the auditor:					
Obtain a sufficient understanding of each of the three elements (control environment, accounting system, and control procedures) of the entity's internal control structure to plan the audit?	A216				
Document his understanding of each of the three elements of the internal control structure?	A217				
Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level?	A218				

Document the basis for the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level?

If early application of SAS No. 55 was elected, and the user auditor has assessed control risk below the maximum for an assertion, and that assertion is dependent upon the application of controls at a service organization, has the auditor obtained and appropriately considered a service auditor's report or performed tests of operating effectiveness at the service organization?

If SAS No. 53 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS) did the auditor:

Make an assessment of the risk of material misstatements of the financial statements, including those resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts?

Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure?

Design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements?

If SAS No. 55 was not elected:

Did the auditor obtain an understanding of the entity's accounting system, including the control environment and the flow of transactions?

If after completing the preliminary phase of the review the auditor decided not to rely on the internal accounting control system to restrict substantive tests, were his reasons for deciding not to extend his review documented?

If the system was relied on, did the auditor document:

QUES.	N/A	YES	NO	REF.
A219				
A220				
A221				
A222				
A223				
A224				
A225				

	QUES.	N/A	YES	NO	REF.
The auditor's understanding of the system and the basis for concluding on the suitability of its design?	A226				
The performance of compliance tests of internal control procedures?	A227				
The evaluation of deviations noted during compliance testing?	A228				
The consideration of the final evaluation of internal accounting control in the development of the audit program?	A229				
If the client used EDP in significant accounting applications, did the study and evaluation of internal control include both general and application controls over EDP activities, including those, if any, at a service organization? (SAS Nos. 44 and 48)	A230				
If the auditor relied on the internal accounting controls at a service organization, was a service auditor's report obtained and appropriately considered? (SAS No. 44)	A231				
Was a written audit program prepared? (SAS No. 22)	G253				
If early application of SAS No. 55 was elected, was the audit program responsive to the needs of the engagement identified, and the understanding of the internal control structure obtained, during the planning process?	A233				
If early application of SAS No. 55 was not elected, was the audit program responsive to the needs of the engagement identified during the planning process and in light of the strengths and weaknesses of internal control? (SAS No. 1, section 320)	A234				
Was consideration given to applicable assertions in developing audit objectives and in designing substantive tests? (SAS No. 31, paragraphs 9 through 13)	A235				
If conditions changed during the course of the examination, was the audit program modified as appropriate in the circumstances?	A236				
Have all audit program procedures been signed?	A237				

If statistical or nonstatistical sampling was used in compliance tests of internal controls (under SAS No. 55, tests of controls) (SAS No. 39, paragraphs .32 through .42):

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the compliance test, tolerable rate, allowable risk of overreliance, and likely rate of deviations?

Was the sample selected in such a way that it could be expected to be representative of the population?

Were the results of the sample evaluated as to their effect on the nature, timing and extent of planned substantive procedures?

In evaluating the sample, was appropriate consideration given to items for which the planned compliance test or appropriate alternative procedure could not be performed, for example, because the documentation was missing?

Was the documentation of the foregoing considerations in accordance with firm policy?

If statistical or nonstatistical sampling was used for substantive tests of details and tests of applicable laws and regulations, if appropriate (SAS No. 39, paragraphs .15 through .30):

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, tolerable error, acceptable level of risk of incorrect acceptance, and characteristics of the population?

Was the sample selected in such a way that it could be expected to be representative of the population?

Were the error results of the sample projected to the items from which the sample was selected?

In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternative procedures could not be performed?

QUES.	N/A	YES	NO	REF.
A238				
A239				
A240				
A241				
A242				
A243				
A244				
A245				
A246				

	QUES.	N/A	YES	NO	REF.
In the evaluation of whether the financial statements may be materially misstated, was appropriate consideration given, in the aggregate, to projected error results from all audit sampling applications and to known errors from non-sampling applications?	A247				
Was the documentation of the foregoing considerations in accordance with firm policy?	A248				
If SAS No. 56 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS) did the auditor:  Consider the guidelines of SAS No. 56 in developing, performing, and evaluating the results of analytical procedures used as substantive tests?	A249				
Use analytical procedures in the overall review stage of the audit?	A250				
If SAS No. 56 was not applicable to this engagement, were the guidelines of SAS No. 23 considered in the performance of analytical review procedures, including:  Investigating significant fluctuations?  Evaluating the effects of the findings on the scope of the examination?	A251				
Has the auditor evaluated the reasonableness of accounting estimates made by management?(4)	A252				
Did the auditor obtain a timely and appropriate letter of representation from management? (SAS Nos. 19 and 63)	A253				
Did the auditor obtain timely and appropriate responses from the entity's attorney concerning litigation, claims, and assessments? (SAS No. 12)	A254				
Have all questions, exceptions, or notes, posed during the audit been resolved, including consideration of views obtained from responsible officials of the entity concerning the auditor's findings?	A255				
	A256				

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(4) The auditor has this responsibility under SAS No. 31, but has been given more specific guidance in SAS No. 57.



QUES. N/A YES NO REF.

Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely errors are considered with likely errors arising in the current period? (SAS No. 47)

A257

If applicable, were adequate tests of compliance with applicable laws and regulations that have a direct and material effect on the financial statements performed and documented (SAS No. 63, pars. 15 and 20)?

G254

If SAS No. 53 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS) did the auditor:

Follow up on errors and irregularities in accordance with SAS No. 53?

A258

Consider the implications of an irregularity in relation to other aspects of the audit, including the reliability of the client's representations?

A259

Assure himself that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement?

A260

When the auditor's procedures disclosed instances or indications of illegal acts and SAS Nos. 54 and/or 63 were applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor:

Follow up on illegal acts having a direct and material effect on the financial statements in accordance with SAS No. 54, paragraph 5?

A261

Follow up on all other illegal acts in accordance with SAS No. 54, paragraph 7?

A262

Consider the implications of a detected illegal act in relation to other aspects of the audit, including the reliability of the client's representations?

A263

Assure himself that the audit committee or others with equivalent authority and responsibility had been adequately informed with respect to all but clearly inconsequential illegal acts identified during the audit?

A264

Communicate directly with the audit committee if the illegal act involved senior management and document that communication?

If evidence exists of situations or transactions that could be indicative of errors, irregularities, or illegal acts, did the auditor:

Either obtain management's approval to extend audit steps and procedures to identify the effect on the entity's financial statements or consider issuing a disclaimer of opinion because of a scope limitation and disclose any reservations regarding compliance with applicable laws and regulations?

Give prompt notice to the appropriate management officials above the level of involvement?

If SAS No. 59 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor evaluate whether there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time?

Were all material instances of weaknesses in internal controls and all identified instances of noncompliance with applicable laws and regulations:

Adequately evaluated and documented?

Appropriately reported in accordance with the applicable standards (SAS No. 20, GAO's Standards for Audit, pp. 28-29 and OMB A-128, paragraph 13)?

If the auditor, subsequent to the date of his report, became aware of facts which may have existed at that date and which might have affected his report had he then been aware of such facts, did he consider the guidance in SAS No. 1, Section 561, in determining an appropriate course of action, and does the matter appear to be properly resolved?(5)

QUES.	N/A	YES	NO	REF.
A265				
G255				
G256				
A267				
G257				
G258				
A273				

(5) This question also applies to circumstances when, subsequent to the date of the audit report on the general purpose financial statements, the auditor, while performing procedures to support the other reports required by the Single Audit Act, identifies additional information that existed at the report date.

If there is an indication that the auditor, subsequent to the date of his report, concluded that one or more auditing procedures considered necessary at the time of his audit of the financial statements in the then existing circumstances were omitted from his audit, did he consider the guidance in SAS No. 46 (AU Section 390) in determining an appropriate course of action, and does the matter appear to be properly resolved?

QUES.	N/A	YES	NO	REF.
A274				



### III. WORKING PAPER AREAS

**NOTE:** In the key audit areas reviewed, the reviewer should evaluate whether the reviewed firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements as described in SAS No. 31. The questions contained in each section represent some of the audit procedures or tests that the reviewed firm might have undertaken to form conclusions in support of financial statement assertions of material significance. If an audit area is not reviewed because it does not represent a key area for that engagement, the reviewer should place an "X" in the box above the name of the working paper area. (As indicated on page GE-6, the reviewer should indicate the reason(s) for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" above the area.)

☐

#### Cash

Were bank accounts confirmed and were reconciling items existing at the balance sheet date cleared by reference to subsequent statements obtained directly from the bank (or obtained from the client and appropriately tested)?

Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine that transactions were recorded in the proper period?

Do the working papers indicate that the following were considered:

Restrictions on cash balances?

Confirmation of bank credit arrangements such as compensating balances?

Confirmation of liabilities and contingent liabilities to banks?

Approval of interfund cash transactions?

Verification of collateral required of depository institutions for public funds?

Compliance with the laws and regulations governing the deposit of public funds?

Determination that all cash accounts have been identified and appropriately recorded?

QUES.	N/A	YES	NO	REF.
A301				
A302				
A303				
A304				
A305				
G301				
G302				
G303				
G304				

Review of repurchase security transactions for consistency with the disclosures of the terms or circumstances of the transactions?

Based on the evaluation of internal accounting control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of cash appear adequate?

☐

### Receivables

Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternate procedures?

If confirmation work was performed prior to year end, is there evidence that there was an adequate review of transactions from the confirmation date to the balance sheet date?

If a significant number and amount of accounts receivable were not confirmed, is there evidence that other auditing procedures were performed?

Were significant notes receivable confirmed as of the balance sheet date?

Were the results of confirmation and alternative procedures summarized and were appropriate conclusions drawn in the working papers?

Was collateral (if any) for receivables examined with respect to existence, ownership and value?

Were procedures performed to provide evidence that taxes receivable and the related revenues were recorded in the correct period?

Were adequate tests of discounts and allowances made?

Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectability of receivables, including interfund receivables, adequately considered?

Is there evidence in the working papers that inquiry was made and consideration given to whether receivables are pledged, assigned or otherwise encumbered?

QUES.	N/A	YES	NO	REF.
G305				
A306				
A307				
A308				
A309				
A310				
A311				
A312				
G406				
A313				
A314				
A315				

QUES. N/A YES NO REF.

Was receivable work coordinated with tests of revenues, including cut-off tests?

A316

Were procedures performed to verify whether the carrying value of notes receivable reflects the present value of the consideration given and the appropriate interest rate?

A317

Based on the evaluation of internal accounting control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of receivables appear adequate?

A318



### Inventories

Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?

A328

Do the working papers indicate that there were adequate tests of:

Physical observation, if material?

G307

The clerical accuracy of the compilation of the inventory?

A324

Costing methods and substantiation of costs used in pricing all elements (raw material, work-in-process and finished goods) of the inventory?

A325

Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?

A326

Based on the evaluation of internal accounting control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of inventory appear adequate?

A333



### Investments

Was a summary schedule prepared (or obtained) and details examined with respect to description, purchase price and date, changes during the period, income, market value, etc., of investments?

A334

Were all securities either examined or confirmed?

A335

Were gains and losses on disposition of securities properly computed?

Do the working papers reflect consideration of the appropriateness of carrying values of securities and their classification?

Were investigations of the carrying value and possible impairment of the carrying value of long-term investments made?

Do the working papers reflect consideration that investments were pledged, restricted, or had limitations on immediate use?

For joint venture investments (accounted for on the equity or other method), were financial statements and other information reviewed to support the amounts presented and the related footnote disclosures?

Was a review made to determine whether the investments are of the types authorized by law or comply with the applicable statutes and investment policies?

Were income, gains and losses from investments examined for proper allocation to the individual funds?

For repurchase and reverse repurchase agreements, were appropriate audit procedures performed (e.g., confirmation, inspection of collateral)?



Prepaid Expenses, Intangible Assets, Deferred Charges, etc.

Were adequate tests made and/or confirmations received for all material:

Prepaid expenses?

Intangible assets?

Deferred charges?

Other?

Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?

QUES.	N/A	YES	NO	REF.
A336				
A337				
A338				
A339				
G308				
G309				
G310				
A341				
A342				
A343				
A344				
A345				
A347				





### Fixed Assets

Was a summary schedule by source prepared (or obtained) to show beginning balances, changes during the period and ending balances for:

Property, plant and equipment?

Accumulated depreciation (where applicable)?

Do tests appear adequate and were proper conclusions drawn with respect to:

Additions (by the examination of supporting documents and/or physical inspection)?

Retirements, etc. (including examination of miscellaneous income, scrap sales?

The adequacy of current and accumulated provisions for depreciation (where applicable)?

Status of idle facilities?

Do working papers indicate that the auditor considered the possibility that property was subject to liens?

Was a review made to determine that capital expenditures are classified in the proper fund accounts and made in accordance with budgetary requirements?

Based on the evaluation of internal accounting control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk do the substantive tests of property, plant and equipment appear adequate?



### Liabilities

Were accounts and warrants payable adequately tested for propriety?

Were liabilities properly classified as current or long-term at the balance sheet date?

Was an adequate search performed for unrecorded liabilities at the balance sheet date?

QUES. N/A YES NO REF.

A349				
A350				
A351				
A352				
A353				
A354				
A355				
G311				
A356				
A357				
A358				
A359				

QUES.	N/A	YES	NO	REF.
Was the payables work coordinated with the testing of the purchases cut-off?	A360			
Was consideration given to expenditures and expenses that might require accrual (e.g., pensions, compensated absences), and to whether accrued expenses were reasonably stated?	A361			
Were procedures performed to determine whether deferred compensation plans are appropriately disclosed? (GASBS No. 2)	G312			
Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed?	A362			
Were audit procedures performed to verify whether the carrying value of debt obligations reflects the present value of the consideration received and the appropriate interest rates?	A363			
Is there evidence of testing of the company's compliance with covenants to debt obligations?	A364			
Was an examination made to determine that:				
New debt issues are properly issued as required by the state constitution or state/local statute and are recorded in the correct fund and/or account group?	G313			
Debt restrictions, guarantees and other debt commitments are properly disclosed?	G314			
Do the tests of interfund borrowings appear adequate with respect to:				
Legal restrictions, if any, on such borrowings?	G315			
Authorization?	G316			
Classification?	G317			
Appropriateness of interest accruals and payments?	G318			
Based on the evaluation of internal accounting control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of liabilities appear adequate?	A365			



### Deferred Revenue

Do the working papers reflect consideration of whether the basis of deferring revenue is reasonable and consistent with restrictions imposed by the grantor or by the special assessment?

Was consideration given to matching requirements, if any?



### Commitments and Contingencies

Do the working papers include indication of the following:

Inspection of minutes of meetings of the oversight unit, provisions of the governmental unit's charter, and applicable statutes and changes therein?

Inspection of contracts, loan agreements, leases and correspondence from taxing and other governmental agencies, and similar documents?

Accumulation and analysis of confirmation responses from banks and lawyers?

Inquiry and discussion with management including management's written representations concerning liabilities and litigation, claims, assessments, and regulatory requirements as applicable?

Consideration of prior audits of federal financial assistance programs that disclosed questionable or disallowed costs, or instances of noncompliance?

Inspection of long-term contracts with non-governmental entities, such as construction contractors?

Is there indication that procedures were performed to uncover the need for recording or disclosing events subsequent to the date of the financial statements? (SAS No. 1, sections 560.10, 560.11 and 560.12)

QUES.	N/A	YES	NO	REF.
A366 & A367				
G419				
A372				
A373				
A374				
A375				
G320				
G321				
A377				

Have all material contingencies been properly considered, documented, and reported (SFAS No. 5 and GASB Cod. Sec. C50)?

☐

#### Fund Equity

Where applicable, were authorizations of changes in reserves and designated balances examined?

Do the working papers indicate that there were appropriate inquiries, where applicable, as to proper classification, description and disclosures of components of fund equity?

Do the working papers indicate that fund transfers were properly approved and recorded?

☐

#### Revenues and Expenditures/Expenses

Were revenues and expenditures and/or expenses for the period compared to the budget and the preceding period and reviewed for reasonableness and were significant variances and fluctuations explained?

Was adequate consideration given to:

The entity's revenue recognition policy?

Income recognition on transactions where the earnings process was not complete?

Do the working papers indicate that revenues and interfund transactions were recognized in the accounting period in which they became available and measurable under the applicable basis of accounting?

Do the working papers indicate that the auditor considered the effect of program income on federal grants and any related activities?

Has it been determined that:

Expenditures are in accordance with the approved budget as to amounts and purpose?

Encumbrances are properly identified, supported and recorded?

QUES.	N/A	YES	NO	REF.
A378				
G322				
G323				
G324				
A383				
A384				
A385				
G325				
G326				
G327				
G328				

QUES. N/A YES NO REF.

Indirect cost allocations are in accordance with OMB A-87?

G329

Were tests of payrolls, including account distribution, made?

A381

Concerning pension plans, do the tests made of the expenses and liabilities appear adequate?

A382

If the entity is reimbursed by a third party for costs incurred in connection with providing services to others:

Were pertinent sections of significant third-party contracts reviewed to determine the basis for reimbursement?

G330

Were cost reimbursement reports and the underlying support reviewed?

G331

Were appropriate allocations made of indirect costs among the entity's programs?

G332

Was the effect of audits, either required or performed by third party grantors, considered?

G333

If grants are awarded to other organizations, did the auditor review:

The classification of the grants?

G334

The effects of the grantees' compliance or non-compliance with performance requirements?

G435

Based upon the evaluation of internal accounting control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, did the substantive tests (review, analysis, and testing) of revenues and expenditures/expenses appear adequate?

A388



Other

Have leases been examined to determine that capital, sales, and direct financing leases have been properly accounted for? (GASB Cod. Sec. L20)

A389

Were appropriate procedures applied to supplementary information?

A390

If the work of a specialist was used, did the auditor apply the guidance in SAS No. 11 par. 9 through .12?

QUES.	N/A	YES	NO	REF.
A393				
A394				

Were specific procedures applied for determining the existence of related parties and examining identified related party transactions? (SAS No. 45)

#### IV. FUNCTIONAL AREAS

##### Independence

If any evidence was noted during the review that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered?(6)

Was timely and appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity?

Were the fees for the prior year's services paid prior to issuance of the report for the current engagement?

##### Assigning Personnel to Engagements

Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel?

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided?

##### Consultation

Was there appropriate consultation and documentation:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it?

Were the firm's conclusions consistent with professional standards?

If the engagement records indicated a difference of opinion between engagement personnel and a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented?

QUES.	N/A	YES	NO	REF.
A501				
A503				
A504				
A506				
A507				
A508				
A509				
A510				
A511				

(6) Government Auditing Standards (ch. 3, pars. 11 to 25) discusses independence issues regarding governmental audits, including examples of both personal and external impairments in addition to those described in the AICPA Code of Professional Conduct.

## Supervision

Were appropriate and knowledgeable engagement personnel involved in the planning process?

Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan?

Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey his approval or modifications to the engagement staff?

Does it appear that the hours charged by the partner, manager, and, where applicable, by the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed?

Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

Review of internal control structure:

Manual system?

EDP system?

Audit work programs?

Financial statement disclosures?

Working papers and financial statement reviews?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?

Were the firm's guidelines for the form and content of audit working papers complied with?

Were differences of professional opinion between engagement personnel resolved in accordance with firm policy?

QUES.	N/A	YES	NO	REF.
A512				
A513				
A514				
A515				
A516				
A517				
A518				
A519				
A520				
A521				
A522				
A523				
A524				



If used, were scientific audit tools (e.g., computer auditing, statistical sampling) properly evaluated by persons with training in these areas? (SAS No. 48)

If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that the work performed was complete and conformed to professional standards and firm policy, and was that review documented?

#### Advancement

If required by firm policy, was the staff on this engagement appropriately evaluated?

#### Acceptance and Continuance of Clients

Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?

#### Professional Development

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, GASB, AICPA, etc.)? (7)

QUES.	N/A	YES	NO	REF.
A525				
A526				
A527				
A528				
A529				

(7) Government Auditing Standards (page 3-2) requires all auditors participating in audits conducted in accordance with Government Auditing Standards to complete 80 hours of continuing professional education every two years, with at least 20 hours completed each year. During that two year period, individuals responsible for supervising or conducting substantial portions of the field work, or reporting on the government audit are required to complete at least 24 hours of continuing professional education in subjects directly related to the government environment and government auditing. Auditors must meet this requirement by December 31, 1990.



V. APPENDIX A - QUESTIONS FOR USE WHEN THE ENGAGEMENT  
IS SUBJECT TO GOVERNMENT AUDITING STANDARDS

Questions for use on engagements for which SAS No. 63 and the Government Auditing Standards were not yet effective and had not been adopted early.

If the engagement did not meet the above criteria, the reviewer should place an "X" in the box below.

☐ Not applicable

If required or deemed necessary, is there any indication that the firm considered the entity's audit requirements and agreed on the scope of the engagement with the entity?

Does the language in the auditor's report(s) conform with professional standards, including references to the GAO's Standards for Audits, and appropriately cover the following for the entity as a whole:

Internal accounting control based solely on a study and evaluation made as part of the audit of the financial statements?

Compliance with finance-related legal and contractual provisions, including a summary of questioned costs and/or instances of noncompliance?

If appropriate, was the scope section of the reports properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results?

When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal act, or indications of such acts?

Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from the prior audits that affect current audit objectives?

If required by contractual obligations, were the findings presented in accordance with the guidance in the GAO's Standards for Audit regarding reporting on economy and efficiency audits and program result audits?

QUES.	N/A	YES	NO	REF.
G401				
G402				
G403				
G404				
G405				
G406				
G407				
G408				

Questions for use on engagements when the 1988 Revision of Government Auditing Standards and SAS No. 63 are applicable either as a result of the effective dates or early application.

If the engagement did not meet the above criteria, the reviewer should place an "X" in the box below.

☐ Not applicable

If required or deemed necessary, is there any indication that the firm considered the entity's requirements and agreed on the scope of the engagement with the entity? (GAO, ch. 4, par. 5)

Does the language in the auditor's reports conform with professional standards, including references to Government Auditing Standards (GAO, ch. 5, par. 3) and appropriately cover the following for the entity as a whole:

The internal control structure related matters based solely on the auditor's understanding of the internal control structure and assessment of control risk made as part of the audit of the financial statements (GAO, ch. 5, par. 17) that includes, when appropriate:

The controls that were evaluated? (GAO, ch. 5, par. 17)

The controls for which consideration was limited? (GAO, ch. 5, par. 20)

If applicable, the reasons why no study of internal controls was made? (GAO, ch. 5, pars. 19 and 20)

Reference to a separate letter, if applicable, describing identified nonreportable conditions? (GAO, ch. 5, par. 25)

Which matters are reportable conditions and which of the reportable conditions are material weaknesses? (GAO, ch. 5, par. 23)

Compliance with applicable laws and regulations, including a summary of all material instances of noncompliance and/or instances or indications of illegal acts (SAS No. 63, par. 18, and GAO, ch. 5, par. 5) that includes, when appropriate:

QUES.	N/A	YES	NO	REF.
G409				
G410				
G411				
G412				
G413				
G414				
G415				
G416				
G417				

A presentation of a reasonable basis for the auditor's conclusion not to perform tests of compliance and omission of a statement of positive assurance on items tested for compliance with laws and regulations? (SAS No. 63, par. 23 and GAO, ch. 5, par. 6)

Presentation of material instances of non-compliance with laws and regulations in accordance with the guidance in Government Auditing Standards regarding reporting on performance audits and issuance of a report on compliance?

Reference to a separate letter, if applicable, describing immaterial instances of noncompliance? (SAS No. 63, par. 27)

If appropriate, was the scope section of the reports properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results?

When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal act, or indications of such acts? (SAS Nos. 63, par. 29)

Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from prior audits that affect current audit objectives? (SAS No. 63, par. 17, fn. 9)

Did the auditor document his communication of those nonreportable conditions in the internal control structure not included in the required reports? (SAS No. 63, pars. 35 and 36 and GAO, ch. 5, par. 25)

If required by contractual obligations, were findings presented in accordance with the guidance in the Government Auditing Standards regarding reporting on performance audits and program result audit?

Do the working papers include a cross-referenced audit program with adequate indexing and cross-referencing to schedules, and are the working papers signed by the preparer? (GAO, ch. 4, par. 22)

QUES.	N/A	YES	NO	REF.
G418				
G419				
G420				
G421				
G422				
G423				
G424				
G425				
G426				



**VI. APPENDIX B - QUESTIONS FOR USE WHEN THE ENGAGEMENT  
IS SUBJECT TO THE SINGLE AUDIT ACT OF 1984**

---

**NOTE:** Reports mentioned in Appendix B are in addition to those indicated previously in Appendix A.

Does the language in the auditor's reports conform with professional standards, including references to Government Auditing Standards and OMB Circular A-128?

Do the Single Audit Act Reports also include:

Auditor's report on the schedule of federal financial assistance? (ASLGU, Ch. 23, par. 18)

Auditor's report on internal controls over federal financial assistance program identifying the entity's internal control structure and those controls designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations including (ASLGU, Ch. 23, par. 24):

The controls that were evaluated?

The controls that were not evaluated?

The material weaknesses identified as a result of the evaluation?

If applicable, the reasons why no study of internal controls was made?

If SAS No. 63 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), are the following reports, where applicable, included (SAS No. 63, App. B):

Major programs - compliance reports:

An opinion that the entity complied, in all material respects, with specific requirements that, if not complied with, could have a material effect on a major federal financial assistance program? (SAS No. 63, par. 73)

A statement of positive assurance with respect to the items tested and a statement of negative assurance on those items not tested concerning

QUES.	N/A	YES	NO	REF.
G501				
G502				
G503				
G504				
G505				
G506				
G507				
G508				

material instances of noncompliance with the general requirements relating to major programs? (SAS No. 63, par. 83)

When appropriate, did the auditor issue either a qualified or adverse report on compliance, which presented material instances of noncompliance with laws and regulations in accordance with the guidance in Government Auditing Standards regarding reporting on performance audits? (SAS No. 63, pars. 83f and 72)

Nonmajor programs - compliance report:

A statement of positive assurance with respect to those items tested and negative assurance on those items not tested concerning material instances of noncompliance with specific requirements of nonmajor programs? (SAS No. 63, par. 87)

If SAS No. 63 was not applicable to this engagement are the following reports, where applicable, included:

Major programs - compliance report:

An opinion that the entity administered each of its major federal financial assistance programs in compliance with laws and regulations, including compliance with laws and regulations pertaining to financial reports and claims for advances and reimbursements? (ASLGU, ch. 23, par. 21)

Nonmajor programs - compliance report:

A statement of positive assurance with respect to those items tested for compliance with laws and regulations, including compliance with laws and regulations pertaining to financial reports and claims for advances and reimbursements? (ASLGU, ch. 23, par. 22)

Negative assurance on those items not tested?

When applicable, does the schedule of findings and questioned costs include the following (ASLGU, ch. 23, par. 16):

QUES.	N/A	YES	NO	REF.
G509				
G510				
G511				
G512				
G513				
G514				



A summary of all instances of noncompliance including to the extent available, information as to the conditions found, criteria, effect and cause?

Extent of noncompliance related to the number of cases and the dollar amount questioned?

An identification of total amounts questioned, if any, for each financial assistance award, as a result of noncompliance?

Did the auditor, by reviewing contract files and receipts and disbursements, obtain reasonable assurance that the entity appropriately identified all federal financial assistance and included that assistance within the audit scope? (SAS No. 63, par. 46)

Does the schedule of federal financial assistance program expenditures present the following:

Identification of each program as indicated in the Catalog of Federal Domestic Assistance (CFDA)?

Other federal assistance from programs not included in the CFDA?

Total expenditures for each federal financial assistance program by grantor, department, or agency?

Total federal financial assistance?

Other information, either required by federal program managers or otherwise deemed appropriate?

Was consideration given to the accounting and auditing guidance issued by the Office of Management and Budget, including Circulars A-128 (Audits of State and Local Governments), A-87 (Cost Principles Applicable to Grants and Contracts), and A-102 (Uniform Requirements for Assistance to State and Local Governments)?

Do the working papers indicate that consideration was given to prior audits of government financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance (SAS No. 63, par. 17, fn. 9 and GAO, ch. 3, par. 41)?

QUES.	N/A	YES	NO	REF.
G515				
G516				
G517				
G518				
G519				
G520				
G521				
G522				
G523				
G524				
G525				

Did the auditor perform the required level of internal control review, to include:

The study and evaluation of those internal control systems, used in administering major federal financial assistance programs, comparable to that which the auditor would perform if he intended to rely on all existing control cycles to restrict the extent of substantive testing? (ASLGU, ch. 21, par. 11)

If warranted, the study and evaluation of the systems, used in administering non-major programs, to the same extent as in Question G526 above so that controls over at least 50 percent of total federal financial assistance program expenditures are studied and evaluated? (ASLGU, ch. 21, par. 12)

Perform a preliminary review of internal control for the systems used in administering other non-major federal financial assistance programs? (ASLGU, ch. 21, par. 13)

For those programs where the study and evaluation of internal control systems did not extend beyond the preliminary review phase, do the working papers document:

Procedures used to perform the preliminary review?

Reasons why the review was not extended?

For the categories of controls for which the full study and evaluation were performed:

Do the working papers document the auditor's understanding of the systems?

Were compliance tests (tests of controls if SAS No. 55 was adopted) performed for these systems?

In the judgment of the reviewer, were the nature and extent of compliance tests (tests of controls) sufficient to enable the auditor to determine if the appropriate policies and procedures were being applied as described?

QUES.	N/A	YES	NO	REF.
G526				
G527				
G528				
G529				
G530				
G531				
G532				
G533				

Did the auditor include the recipient's system for ensuring subrecipients' compliance and obtaining and acting on subrecipients' audit reports? (ASLGU, ch. 21, par. 36)

Do the working papers adequately document the work performed and the conclusions reached? (SAS No. 55)

In determining whether the entity complied with applicable laws and regulations that may have a material effect on each major federal financial assistance program, did the auditor:

Consult appropriate sources, such as the Compliance Supplement for Single Audits of State and Local Governments, statutes, regulations, and agreements covering individual programs, in order to identify the specific compliance requirements that apply to each major program and to determine which requirements to test? (SAS No. 63, pars. 49 and 53)

Consider materiality in relation to each major federal assistance program? (SAS No. 63, pars. 47 and 48)

Select a representative number of charges from each major program? (ASLGU ch. 5, par. 5.5)

Perform and document tests to determine whether (SAS No. 63, par. 49 and GAO, ch. 4, par. 22):

The amounts reported as expenditures were allowable under federal regulations and contracts?

Only eligible persons or organizations received services or benefits?

Matching requirements were met?

Federal financial reports and claims for advances and reimbursements were supported by the records supporting the financial statements?

The entity complied with other provisions for which federal agencies have determined that noncompliance could materially affect the program?

QUES.	N/A	YES	NO	REF.
G534				
G535				
G536				
G537				
G538				
G539				
G540				
G541				
G542				
G543				

Perform and document tests to determine whether the entity complied with each of the general requirements contained in the compliance supplement concerning (SAS No. 63, par. 80 and GAO, ch. 4, par. 22):

Political activity?

Civil rights?

Davis-Bacon Act?

Cash management?

Relocation of assistance and real property acquisition?

Federal financial reports?

Consider projected questioned costs from all audit sampling applications and all specifically identified questioned costs? (SAS No. 63, par. 69-71)

Consider whether the tests of compliance with the program's requirements appear adequate to support the report(s) on compliance? (SAS No. 63, par. 20 and GAO, ch. 4, par. 13 and 14)

Did the auditor properly consider the potential effects of instances of noncompliance and questioned costs in reporting on the entity's financial statements and individual financial assistance programs? (OMB Cir. A-128, Questions and Answers, par. 20)

Where transactions related to non-major federal financial assistance programs have been selected during other audit procedures, have they been appropriately tested for compliance with the specific requirements that apply to the individual transactions so tested? (SAS No. 63, pars. 85 and 88)

If warranted, did the auditor communicate with the cognizant agency to avoid or minimize any disagreements or problems? (ASL GU, ch. 21, pars. 40 and 41)

Did the auditor submit the report(s) to the organization audited and to those requiring or arranging for the audit within the required time? (GAO, ch. 5, par. 34)

QUES.	N/A	YES	NO	REF.
G544				
G545				
G546				
G547				
G548				
G549				
G550				
G551				
G552				
G553				
G554				
G555				

Has the auditor established policies or procedures for complying with the additional requirements concerning (ASLGU, ch. 21, par. 27):

Retaining working papers and reports for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the cognizant agency to extend the retention period?

Making the working papers available upon request to the cognizant agency or its designee or the GAO, at the completion of the audit?

QUES.	N/A	YES	NO	REF.
G556				
G557				

## VII. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

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\* The nature of the disposition of comments may vary, such as:

- o Note "resolved" and the manner of resolution.
- o Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------



<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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### VIII. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

1. The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202) and other applicable standards including, where applicable, the requirements of Government Auditing Standards and the Single Audit Act? YES\* ☐ NO ☐
2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified (see AU 561 and ET 203)? YES\* ☐ NO ☐
3. The auditor's reports, including all reports required under Government Auditing Standards or by the Single Audit Act, were not appropriate in the circumstances? YES\* ☐ NO ☐
4. The documentation on this engagement does not support the firm's opinion on the financial statements? YES ☐ NO ☐
5. The firm did not comply with its policies and procedures on this engagement in all material respects? YES ☐ NO ☐

---

\* If this question is answered "yes," see additional guidance contained on pages 2-20 and 2-21 of the SECPS Manual (1986 edition) or the PCPS Peer Review Manual (1986 edition).



MATTER FOR FURTHER CONSIDERATION

CONTROL NO. \_\_\_\_\_

REVIEWER'S DESCRIPTION OF THE MATTER

REVIEWED FIRM AGREES WITH THE DESCRIPTION OF THE MATTER? YES \_\_\_ NO \_\_\_

REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

REVIEWER'S ADDITIONAL COMMENTS

Check One: Design

Performance

Compliance-Membership

Compliance-Other

Documentation

(Note: This sample MFC form has been reduced in size. The actual form is 8 1/2" x 14" and is available from the Quality Control Review Division staff.)

REVIEW CAPTAIN'S COMMENTS, IF ANY

REASON:

FIRM \_\_\_\_\_  
OFFICE CODE NO. \_\_\_\_\_

CONTROL NO. \_\_\_\_\_

Signatures

Dates

Engagement Partner \_\_\_\_\_

Reviewer \_\_\_\_\_

Team Captain \_\_\_\_\_

Compliance Questionnaire

Engagement

Section Element \_\_\_\_\_  
Program Step \_\_\_\_\_

No. \_\_\_\_\_  
Checklist Page \_\_\_\_\_  
Program Step \_\_\_\_\_

## INSTRUCTIONS FOR USE OF MFC FORMS

1. If an MFC was prepared during the course of the review and subsequent information indicates that the form should not have been prepared, it may be discarded. (For example, an MFC stated that no letter was received from legal counsel, but a letter that meets the requirements of professional standards had been received and misfiled and was subsequently found. On the other hand, if an MFC is prepared for an item which is later determined to be immaterial, it should not be discarded. For example, a representation letter from a SSARS client required by firm policy was not obtained, but the reviewer was satisfied with the engagement partner's reasoning for not obtaining it.)
2. Number MFCs consecutively (top and bottom) to establish correspondence between top and bottom stub.
3. MFCs relating to both functional and engagement review areas should be sorted by nature of comment.
4. Do not detach control stub until POB oversight is completed. (The stub should be detached only if the SEC accesses the working papers.)



As Revised 1990

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

CHECKLIST FOR REVIEW OF AUDIT ENGAGEMENTS  
OF NOT-FOR-PROFIT ORGANIZATIONS

(SEE SEPARATE INSTRUCTIONS INSIDE FOR USE OF THIS CHECKLIST)

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1211 Avenue of the Americas, New York, NY 10036-8775

NE-2



Instructions for Use of  
Checklist for a Review of Audit Engagements  
of Not-For-Profit Organizations

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This checklist was developed for use by reviewers of audits of not-for-profit or voluntary health and welfare organizations, including those entities that receive federal financial assistance. It should be used in conjunction with other guidance materials issued to implement the peer review program of the AICPA Division for CPA Firms. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division staff member who initially contacted you or to the Quality Review Division at 212/575-6650.

The questions in the checklist are intended to emphasize the general procedures that an independent auditor would ordinarily perform in examining and reporting on financial statements of not-for-profit and voluntary health and welfare organizations. Accordingly, the matters covered in this checklist concentrate primarily on the accounting and auditing procedures that are unique to those not-for-profit audits and that extend the auditor's responsibilities beyond compliance with the AICPA's GAAS.

Reviewers may adapt this checklist to fit specific engagements. If the not-for-profit entity is contractually required to submit reports prepared in accordance with the Single Audit Act of 1984, the reviewer should complete and attach Sections I ("Auditor's Reports") and III ("Compliance with the Requirements of the Single Audit Act of 1984 (The Single Audit Act) and/or Government Auditing Standards") of the Checklist for Review of Audit Engagements of State or Local Governmental Entities, including those receiving Federal Assistance in lieu of this checklist's Section III ("Audits of Governmental Grantees"). Likewise, individuals reviewing review or compilation engagements of not-for-profit organizations should combine Sections I ("Report and Financial Statements") and III ("Audits of Governmental Grantees") of this checklist with Sections II ("General Procedures"), III ("Functional Areas") and V ("Conclusions") of the review and compilation checklists.

The questions have been derived principally from the pronouncements of the Auditing Standards Board, the AICPA's Statement of Position 78-10 ("Accounting Principles and Reporting Practices for Certain Nonprofit Organizations"), the AICPA Audit and Accounting Guide, Audits of Certain Nonprofit Organizations, the AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations, the AICPA financial reporting practice aid, Disclosure Checklists for Nonprofit Organizations, and the U.S. General Accounting Office's 1981 "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (Government Auditing Standards (1988 Revision) for Audit) 1988 Government Auditing Standards (Section III of this checklist).

Reviewers should be aware that Statement of Position 78-10 has a unique position compared to other statements of position and audit guides as it does not have an effective date (paragraph 124). However, FASB No. 32 indicates that the specialized accounting and reporting principles and practices contained in SOP 78-10 are preferable accounting principles for applying APB Opinion No. 20.

The common interpretation of this situation is that an entity is not required to adopt the accounting principles advocated in SOP 78-10; however, if an organization changes its accounting principles, it should adopt the principles enumerated in that document.

By comparison, the industry audit guide Audits of Voluntary Health and Welfare Organizations is effective and, as noted in the notice to readers on the inside cover, members are on notice that they may be called upon to justify departures from the accounting principles in the guide.

Reviews of engagements on which Government Auditing Standards (1988 revision) and SAS No. 63, "Compliance Auditing Applicable to Governmental Entities and Other Receipts of Governmental Financial Assistance," were applied should complete Section III of this checklist in lieu of Appendix A. Reviewers of audits of other not-for-profit organizations that received governmental grants should complete Appendix A.

In using Section III of this checklist on engagements performed in accordance with Government Auditing Standards, reviewers will have to contend with differing effective dates of the various pronouncements. Reproduced below are paragraphs 92 and 93 of SAS No. 63 ("Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance") that provide information on the effective dates and transitional guidance:

- 92. Except as stated below, the provisions of this statement are effective for audits of financial statements and of compliance with laws and regulations for fiscal periods beginning on or after January 1, 1989. The provisions in paragraphs 11, 15, 34, 37g and 58 through 62 of this statement, which are based on the principles contained in SAS No. 55, "Consideration of the Internal Control Structure in a Financial Statement Audit," are effective for audits of financial statements and of compliance with laws and regulations for fiscal periods beginning on or after January 1, 1990. Early application of this statement is permissible.
- 93. Government Auditing Standards is effective "for audits starting January 1, 1989." Unless the GAO excludes AICPA standards by formal announcement, Government Auditing Standards incorporates the AICPA statements on auditing standards and their respective effective dates. Thus, neither Government Auditing Standards nor this statement requires early application of any AICPA standard that has a later effective date. Auditors who do not elect to apply this statement before its effective date should consider the guidance contained in the AICPA Audit and Accounting Guide Audits of State and Local Governmental Units (1986 revised edition).

Thus, although Government Auditing Standards requires the auditor to apply SAS Nos. 53 ("The Auditor's Responsibility to Detect and Report Errors and Irregularities"), 54 ("Illegal Acts by Clients"), and 55 ("Consideration of the Internal Control Structure in a Financial Statement Audit"), neither Government Auditing Standards nor SAS No. 63 requires auditors to apply those pronouncements before their specified effective dates. Auditors not applying either SAS Nos. 53, 54, or 55 early should continue to apply SAS Nos. 16 and 17 and AU Section 320 until the effective dates of the new pronouncements.

### ENGAGEMENT PROFILE

Engagement Code No. \_\_\_\_\_ Office \_\_\_\_\_

Partner \_\_\_\_\_ Date of Financial Statements\* \_\_\_\_\_

Manager \_\_\_\_\_ Date of Report \_\_\_\_\_

Concurring Reviewer\*\* \_\_\_\_\_ Date Report Released \_\_\_\_\_

The responsibility of this office involves reporting on:

- ☐ Financial statements (single entity)
- ☐ Combined financial statements of financially interrelated not-for-profit organizations
- ☐ Consolidated or combined financial statements of voluntary health and welfare organizations
- ☐ Financial statements of a component of the organization
- ☐ Special reports (SAS No. 62)
- ☐ Internal Control and Compliance (pursuant to the Single Audit Act)
- ☐ Other (explain)

Was the work performed at the request of another office? Yes\_\_ No\_\_

Date that the fee for the prior engagement was paid \_\_\_\_\_

Key data reported on by this office for this engagement:

Total revenues (Memorandum total)	\$ _____
Total assets	\$ _____
Total fund balances	\$ _____
Total amount of federal assistance received***	\$ _____

General description of audited entity (type of entity, services provided, etc.)

Complex or troublesome audit areas:

Audit hours on this engagement:

	<u>Total</u>	<u>Prior to Commencement of Field Work</u>	<u>During Field Work</u>	<u>After Completion of Field Work</u>
Partner	_____	_____	_____	_____
Manager (or equivalent)	_____	_____	_____	_____
Concurring Reviewer**	_____	_____	_____	_____
Senior	_____	_____	_____	_____
Other	_____	_____	_____	_____
Total this office	_____			
Total budgeted	_____			

\* To determine the applicability of all cross-referenced pronouncements, their effective dates should be considered.

\*\* Not applicable unless required by firm policy.

\*\*\* This amount should include "pass through" federal financial assistance received indirectly from a state or local government.

# LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is left to the judgment of the reviewers; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily all key audit areas should be reviewed. List below the key areas on this engagement and, if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II, and V should be answered in addition to the key areas identified.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

Date Engagement Review Performed \_\_\_\_\_

Reviewer \_\_\_\_\_

Date Checklist Reviewed  
by Team Captain \_\_\_\_\_

Signature \_\_\_\_\_

CHECKLIST FOR REVIEW OF AUDIT ENGAGEMENTS  
OF NOT-FOR-PROFIT ORGANIZATIONS

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NOTE: This checklist has been updated through SAS No. 63, SFAS No. 102, FASB Interpretation No. 38, and the GAO's <u>Government Auditing Standards</u> (1988 Revision).	

## I. REPORT AND FINANCIAL STATEMENTS

NOTE: This condensed checklist has been extracted from the AICPA financial reporting aid, Disclosure Checklists for Nonprofit Organizations. Reviewers may wish to consult that checklist for detailed information about the applicable professional standards and related citations. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

### Auditor's Reports

	QUES.	N/A*	YES	NO	REF.**
Is the report dated in conformity with the requirements of professional standards?	A101				
Does the report disclose all required matters and does its language conform to that required by professional standards (SAS 58)?	A102				
If required by the circumstances, does the auditor's report depart from the standard report and include appropriate language describing the departure?	A103				
If supplementary information accompanies the basic financial statements, does the auditor describe in his report the degree of responsibility, if any, he is taking?	A104				
For special reports, have the provisions of SAS Nos. 14, 35 and 62 been complied with regarding:  Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? (SAS Nos. 14 and 62)	A105				
Specified elements, accounts or items of a financial statement? (SAS Nos. 14, 35 and 62)	A106				
Compliance with aspects of agreements or regulatory requirements relating to audited financial statements? (SAS Nos. 14, 35 and 62)	A107				
Financial presentations to comply with contractual agreements or regulatory provisions?	A108				
Financial information that requires a prescribed form of auditor's report? (SAS Nos. 14 and 62)	A109				

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column or (2) discussed on the pages provided at the end of this checklist.

For reports on financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the United States, has there been compliance with the provisions of SAS No. 51?

Financial Statements and Footnotes

General

Are all financial statements suitably titled?

Is the presentation appropriate and disclosure adequate regarding:

Significant accounting policies, including the description of the nature of each fund (i.e., general, plant, endowment, unrestricted, temporarily restricted, permanently restricted)?

Accounting changes?

If the auditor is expressing an opinion on summarized comparative information of the prior period, does the prior period's information contain sufficient detail to constitute a fair presentation in accordance with generally accepted accounting principles (AU Section 508.76, footnote 27)?

Are nonmonetary transactions accounted for and disclosed?

With respect to contingencies and commitments:

Are loss contingencies disclosed and/or accrued?

Are commitments and other contingencies adequately disclosed?

Are the financial statements, where appropriate, adjusted for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?

If FASB No. 87 is being applied, is the following information on defined benefit pension plans adequately disclosed:

A description of the plan?

The amount of net periodic pension cost and of required cost components?

QUES.	N/A	YES	NO	REF.
A110				
A111				
A112				
A113				
N101				
A122				
A123				
A124				
A125				
A126				
A127				



	QUES.	N/A	YES	NO	REF.
A reconciliation of the plan's funded status with the amounts reported in the employer's balance sheet?	A128				
The discount rate and rate of compensation increase used to measure the projected benefit obligation and the long-term rate of return on plan assets?	A129				
Other information concerning plan assets, benefits, and amortization methods?	A130				
Are all other pension plans adequately disclosed?	A131				
Are postretirement health care and life insurance benefits properly disclosed?	A132				
If the financial statements represent a component, such as a branch of an existing organization, a separate operation, a separate fund, or a grant, do the financial statements or footnotes disclose the following:					
Existence and nature of affiliated or related entities?	N102				
Nature and volume of material transactions (individually or in the aggregate) with related entities?	N103				
Any allocations of common expenses?	N104				
Are related party transactions with non-combined affiliated entities, contributors of restricted funds, board members, officers, and employees adequately disclosed?	N105				
If appropriate, are the financial statements prepared on a fund accounting basis and adequate disclosures made of the following:					
Unrestricted resources (including all board-designated amounts)?	N106				
Resources restricted by the donor?	N107				

### Balance Sheet

Is the presentation appropriate and disclosure adequate regarding:

Segregation of assets and liabilities into current and noncurrent classifications (if only unrestricted funds exist, a segregated balance sheet is recommended, but not required, by SOP 78-10)

Valuation allowances?

Cash?

Investments?

Terms or circumstances concerning repurchase or reverse repurchase agreements?

Receivables:

Effect of interest rates which do not reflect market rates?

Legally enforceable pledges?

Interfund receivables?

Other receivables?

Inventories?

Collections of works of art and similar items?

Fixed Assets:

Purchased fixed assets?

Donated fixed assets?

Accounting for depreciation, including disclosure of depreciation policy for inexhaustible assets?

Capitalized interest?

Restrictions on use or disposal imposed by donor?

Sales-type, direct financing, and operating leases of lessors?

Other assets including intangible assets, deferred tax assets and deferred charges?

QUES.	N/A	YES	NO	REF.
A137				
A138				
N108				
A148				
N109				
A144				
N110				
N111				
A146				
A147				
N112				
N113				
N114				
N115				
N116				
N117				
A150				
A151				

	QUES.	N/A	YES	NO	REF.
Pledged assets?	A152				
Current liabilities?	A153				
Short-term liabilities expected to be refinanced?	A154				
Notes payable and other debt:					
Maturities and rates?	A155				
Effect of interest rates which do not reflect market rates?	A157				
Maturities and sinking fund requirements for the next five years?	A160				
Interfund payables?	N118				
Capital and operating leases of lessees?	A161				
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees, and deferred revenue and support?	A162				
<u>Activity Statement</u>					
Are unrestricted revenues, expenses, and fund balances segregated from restricted items so as to be clearly distinguishable?	N119				
If the organization receives significant support from contributions from the general public, are all expenses presented on a functional basis (i.e., indicating costs of each program and activity)?	N120				
Does the Activity Statement include all the funds of the organization?	N121				
Is the presentation appropriate and disclosure adequate regarding:					
Service fees, such as subscription and membership income?	N122				
Sales of publications and other items?	N123				
Third-party reimbursements of costs of program activities?	N124				
Investment income?	N125				

	QUES.	N/A	YES	NO	REF.
Capital gains and losses from investments, both realized and unrealized, and the related tax effects, if any?	N126				
Contributions?	N127				
Donated services, materials and facilities?	N128				
Gifts of future interests?	N129				
Other gifts, grants, pledges, etc.?	N130				
Interfund transfers?	N131				
Other revenue or capital additions?	N132				
Allocation of functional expenses to programs and services?	N133				
Fund raising expenses, including joint costs of informational materials and activities allocated between fund raising and other functional expense categories?	N134				
Depreciation?	A177				
Deferred compensation agreements?	A180				
Grants to other organizations?	N135				
Remittances to national organizations?	N136				
Extraordinary and unusual items?	A190				
Prior period adjustments?	N137				
<u>Additional Financial Statements</u>					
For not-for-profit organizations accounted for under SOP 78-10, is a statement of changes in financial position presented as a basic financial statement for each period for which an activity statement and balance sheet are presented?	N138				
If a statement of changes in financial position was presented, does it disclose all important aspects of financing and investing activities?	A193				

	QUES.	N/A	YES	NO	REF.
For voluntary health and welfare organizations, is a statement of functional expenses presented as a basic financial statement for each period for which an activity statement is presented?	N139				
If a statement of cash flows was presented, does it disclose:					
Cash provided or used by investing, financing and operating activities?	A196				
The net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents, and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet?	A197				
Does it provide a reconciliation between excess of revenue over expenditures and net cash flow from operating activities?	A198				
Noncash investing and financing activities?	A199				
If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed?	A200				
<u>Other</u>					
Are the statement formats and disclosures generally consistent with the appropriate industry audit guides and statements of position?	A201				



## II. GENERAL AUDIT PROCEDURES

In planning the audit engagement, did the auditor properly consider:

Matters affecting the environment in which the entity operates, such as accounting practices, economic conditions, laws and governmental regulations, contractual obligations and technological changes? (SAS No. 22)

Matters affecting the entity's operations, such as legal organization and types of services? (SAS No. 22)

Preliminary judgment about materiality levels for audit purposes? (SAS No. 47)

Anticipated reliance on internal accounting controls? (AU Section 311) (1)

If SAS No. 53 was not applicable to this engagement, conditions that may require extension or modification of audit tests, such as the possibility of material errors or irregularities and management's ability to override controls? (SAS No. 16)

If the auditor succeeded a predecessor accountant, did he:

Communicate with the predecessor accountant to ascertain whether there were disagreements between the predecessor accountant and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client?

Make other inquiries of the predecessor accountant on significant matters?

Satisfy himself on the fair presentation of opening balances, such as by reviewing the predecessor accountant's working papers?

If SAS No. 56 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor perform appropriate analytical procedures in planning the nature, timing and extent of other audit procedures?

QUES.	N/A	YES	NO	REF.
A202				
A203				
A204				
A205				
A206				
A207				
A208				
A209				
A215				

(1) If early application of SAS No. 55 was elected, the reviewer should answer this question "N/A" and answer Questions A216 through A220.

If early application of SAS No. 55 was elected, did the auditor:

Obtain a sufficient understanding of each of the three elements (control environment, accounting system, and control procedures) of the entity's internal control structure to plan the audit?

Document his understanding of each of the three elements of the internal control structure?

Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level?

Document the basis of the conclusion (i.e., tests of control) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level?

If early application of SAS No. 55 was elected, and the user auditor has assessed control risk below the maximum for an assertion, and that assessment is dependent upon the application of controls at a service organization, has the auditor obtained and appropriately considered a service auditor's report or performed tests of operating effectiveness at the service organization?

If SAS No. 53 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor:

Make an assessment of the risk of material misstatements of the financial statements, including those resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts?

Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure?

Design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements?

QUES.	N/A	YES	NO	REF.
A216				
A217				
A218				
A219				
A220				
A221				
A222				
A223				



QUES. N/A YES NO REF.

If early application of SAS No. 55 was not elected:

Did the auditor obtain an understanding of the entity's accounting system, including the control environment and the flow of transactions?

A224

If after completing the preliminary phase of the review the auditor decided not to rely on the internal accounting control system to restrict substantive tests, were his reasons for deciding not to extend his review documented?

A225

If the auditor decided to rely on the system:

Was there appropriate documentation of the auditor's understanding of the system and the basis for his conclusions about the suitability of its design?

A226

Were adequate tests of compliance with internal control procedures made?

A227

Were deviations noted during compliance testing appropriately evaluated?

A228

Was a final evaluation of internal accounting control documented and considered in the development of the audit program?

A229

If the client used EDP in significant accounting applications, did the study and evaluation of internal controls include both general and application controls over EDP activities, including those, if any, at a service organization? (SAS Nos. 44 and 48)

A230

If the auditor relied on the internal accounting controls structure at a service organization, was a service auditor's report obtained and appropriately considered? (SAS No. 44)

A231

Was an appropriately tailored, written audit program prepared? (SAS No. 22 and applicable AICPA Industry Audit Guides)

N201

If early application of SAS No. 55 was elected, was the audit program responsive to the needs of the engagement identified, and the understanding of the internal control structure obtained, during the planning process?

A233

	QUES.	N/A	YES	NO	REF.
If early application of SAS No. 55 was not elected, was the audit program responsive to the needs of the engagement identified during the planning process and was it developed in light of the strengths and weaknesses of internal control? (SAS No. 1, section 320)	A234				
Was consideration given to applicable assertions in developing audit objectives and in designing substantive tests? (SAS No. 31, paragraphs 9 through 13)	A235				
If conditions changed during the course of the examination, was the audit program modified as appropriate in the circumstances?	A236				
Have all procedures called for in audit programs been signed?	A237				
If statistical or nonstatistical sampling was used in compliance tests of internal controls (under SAS No. 55, tests of controls) (SAS No. 39, paragraphs .31 through .42):					
In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the compliance test, tolerable rate, allowable risk of overreliance, and likely rate of deviations?	A238				
Was the sample selected in such a way that it could be expected to be representative of the population?	A239				
Were the results of the sample evaluated as to their effect on the nature, timing and extent of planned substantive procedures?	A240				
In evaluating the sample, was appropriate consideration given to items for which the planned compliance test or appropriate alternative procedure could not be performed, for example, because the documentation was missing?	A241				
Was the documentation of the foregoing considerations in accordance with firm policy?	A242				
If statistical or nonstatistical sampling was used for substantive tests of details (SAS No. 39, paragraphs .15 through .30):					

QUES.	N/A	YES	NO	REF.
In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, tolerable error, acceptable level of risk of incorrect acceptance, and characteristics of the population?				
A243				
Was the sample selected in such a way that it could be expected to be representative of the population?				
A244				
Were the error results of the sample projected to the items from which the sample was selected?				
A245				
In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternate procedures could not be performed?				
A246				
In the evaluation of whether the financial statements may be materially misstated, was appropriate consideration given, in the aggregate, to projected error results from all audit sampling applications and to all known errors from non-sampling applications?				
A247				
Was the documentation of the foregoing considerations in accordance with firm policy?				
A248				
If SAS No. 56 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor:				
Consider the guidelines in SAS No. 56 in developing, performing, and evaluating the results of analytical procedures used as substantive tests?				
A249				
Use analytical procedures in the overall review stage of the audit?				
A250				
If SAS No. 56 was not applicable to this engagement, were the guidelines of SAS No. 23 considered in the performance of analytical review procedures including:				
Investigating significant fluctuations?				
A251				
Evaluating the effects of the findings on the scope of the examination?				
A252				

	QUES.	N/A	YES	NO	REF.
Has the auditor evaluated the reasonableness of accounting estimates made by management?(2)	A253				
Did the auditor obtain a timely and appropriate letter of representation from management? (SAS Nos. 19 and 63)	A254				
Did the auditor obtain timely and appropriate responses from the entity's attorney concerning litigation, claims, and assessments? (SAS No. 12)	A255				
Have all questions, exceptions, or notes, posed during the audit been followed up and resolved, including consideration of the views obtained from responsible officials of the organization, program, activity, or function audited concerning the auditor's findings, conclusions, and recommendations?	N202				
Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely errors are considered with likely errors arising in the current period? (SAS No. 47)	A257				
If SAS No. 53 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor:					
Follow up on errors and irregularities in accordance with SAS No. 53?	A258				
Consider the implications of an irregularity in relation to other aspects of the audit, including the reliability of the client's representations?	A259				
Assure himself that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement?	A260				
When the auditor's procedures disclosed instances or indications of illegal acts and if SAS Nos. 54 and/or 63 were applicable to this engagement (either as a result of the SASs' effective dates or an early application of the SASs) did the auditor:					

(2) The auditor has this responsibility under SAS No. 31, but has been given more specific guidance in SAS No. 57.

QUES.	N/A	YES	NO	REF.
A261				
A262				
A263				
A264				
A265				
A266				
A267				
A268				
A269				
A270				
A271				

Follow up on illegal acts having a direct and material effect on the financial statements in accordance with SAS No. 54, paragraph 5?

Follow up on all other illegal acts in accordance with SAS No. 54, paragraph 7?

Consider the implications of a detected illegal act in relation to other aspects of the audit, including the reliability of the client's representations?

Assure himself that the audit committee or others with equivalent authority and responsibility had been adequately informed with respect to all but clearly inconsequential illegal acts identified during the audit?

Communicate directly with the audit committee if the illegal act involved senior management and document that communication?

If SAS Nos. 53 and 54 were not applicable to this engagement were errors, irregularities, or illegal acts, if any, followed up in accordance with SAS Nos. 16 and 17?

If SAS No. 59 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time?

If SAS No. 60 was not applicable to this engagement, were material weaknesses, if any, in internal control communicated to senior management and the board of directors or its audit committee? (SAS No. 20)

Were reports on internal control prepared in accordance with SAS Nos. 20 and 30?

If SAS No. 60 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS):

Did the auditor communicate reportable conditions to the audit committee or others with equivalent authority and responsibility?

If the communication was in writing, did the report include all elements required by SAS No. 60?

QUES.	N/A	YES	NO	REF.
<p>If the communication was oral, did the auditor document the communication in the working papers?</p>				
<p>If there is an indication that the auditor, subsequent to the date of his report, became aware that facts may have existed at that date which might have affected his report, had he then been aware of such facts, did he consider the guidance in SAS No. 1, Section 561, in determining an appropriate course of action, and does the matter appear to be properly resolved?</p>				
<p>If there is an indication that the auditor, subsequent to the date of his report, concluded that one or more auditing procedures considered necessary at the time of the audit in the then existing circumstances were omitted from his audit, did he consider the guidance in SAS No. 46 (AU Section 390) in determining an appropriate course of action, and does the matter appear to be properly resolved?</p>				
<p>If SAS No. 61 was applicable to this engagement (either as a result of the SAS's effective date or an early application of the SAS), did the auditor:</p> <p>Assure himself that the appropriate matters have been communicated to those who have responsibility for oversight of the financial reporting process? (SAS No. 61, para. 6 through .14)</p>				
<p>If the communication was in writing, prepare a written report that includes a statement that the communication is intended solely for the use of the audit committee or the board of directors and, if appropriate, management?</p>				
<p>If the communication was oral, document the information communicated by appropriate memorandum or notations in the working papers?</p>				

(FOR USE WHERE EARLY APPLICATION OF SAS No. 63 AND GOVERNMENT AUDITING STANDARDS HAVE BEEN ADOPTED)

### SECTION III. III. AUDITS OF GOVERNMENTAL GRANTEES

NOTE: These questions are derived from the statement on Auditing Standards No. 63, the U. S. General Accounting Office's Government Auditing Standards (1988 Revision), and the Office of Management and Budget Circular A-110. Reviewers may wish to consult these documents for more detailed information on standards concerning the audits of governmental grantees. Reviewers of engagements on which U.S. General Accounting Office's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" ("1981 Yellow Book") and the Office of Management and Budget Circular A-110 should complete Appendix A instead of this section.

If this not-for-profit organization is required to report in accordance with the Single Audit Act of 1984, the reviewer should complete and attach the relevant portions of Sections I and III of the Checklist for Review of Audit Engagements of State or Local Governmental Entities, Including Those Receiving Federal Financial Assistance in lieu of this section.

References to professional and governmental pronouncements have been provided in this section because of recent significant changes in governmental reporting and auditing. The term "GAO" followed by the chapter and paragraph refers to Government Auditing Standards (1988 Revision).

If the audit was required to be conducted in accordance with Government Auditing Standards, does the language in the auditor's reports conform with professional standards, including references to Government Auditing Standards (GAO, ch. 5, par. 3), and appropriately cover the following for the entity as a whole:

The financial statements, including, where presented, the combining and individual fund financial statements?

The internal control structure related matters based solely on the auditor's understanding of the internal control structure and assessment of control risk made as part of the audit of the financial statements (GAO, ch. 5, par. 17) that includes, when appropriate:

The entity's significant internal accounting controls and those controls designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations (GAO, ch. 5, par. 17)?

QUES.	N/A	YES	NO	REF.
N301				
N302				
N303				
N304				

QUES.	N/A	YES	NO	REF.
The controls that were evaluated (GAO, ch. 5, par. 20)?				
The controls that were not evaluated?				
If applicable, the reasons why no study of internal controls was made (GAO, ch. 5, pars. 19 and 20)?				
A presentation of reportable conditions in accordance with the guidance in <u>Government Auditing Standards</u> , Chapter 7, regarding reporting on performance audits (GAO, ch. 5, par. 23)?(3)				
Reference to a separate letter describing identified nonreportable conditions (GAO, ch. 5, par. 25)?				
Compliance with applicable laws and regulations, including a summary of all material instances of noncompliance and/or instances of illegal acts (SAS No. 63, par. 28, and GAO, ch. 5, par. 5) that includes, when appropriate:				
A presentation of reasonable basis for the auditor's conclusion not to perform tests of compliance and omission of a statement of positive assurance on items tested for compliance with laws and regulations (SAS No. 63, par. 23, and GAO, ch. 5, par. 6)?				
A presentation of material instances of non-compliance with laws and regulations in accordance with the guidance in <u>Government Auditing Standards</u> regarding reporting on performance audits and issuance of either a qualified or adverse report on compliance?(4)				

- 
- (3) Government Auditing Standards requires the auditor to indentify reportable conditions. When no reportable conditions are noted, SAS No. 63, paragraph 39, permits the auditor to state that no material weaknesses came to his attention.
- (4) SAS No. 63, paragraph 25, requires the reporting of material instances of noncompliance regardless of whether the resulting misstatements have been corrected in the entity's financial statements.



	QUES.	N/A	YES	NO	REF.
A reference to a separate letter describing immaterial instances of noncompliance (SAS No. 63, par. 27)?	N313				
Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from prior audits that affect current audit objectives (SAS No. 63, par. 17, fn. 9)?	N314				
When appropriate, did the auditor issue a report on fraud, abuse, or an illegal act, or indications of such acts to the entity arranging the audit (SAS No. 63, pars. 28 and 29 and GAO, ch. 5, pars. 13 and 16)?	N315				
When appropriate, was the scope section of the report properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results (GAO, ch. 3, par. 27)?	N316				
If required or deemed necessary, is there any indication that the firm considered the entity's audit requirements and agreed on the scope of the engagement with the entity (GAO, ch. 4, par. 5)?	N317				
By reviewing contract files and receipts and disbursements, did the auditor obtain reasonable assurance that the entity appropriately identified all federal financial assistance and laws and regulations and included those matters within the audit scope (SAS No. 63, par. 8)?	N318				
Do the working papers indicate that consideration was given to prior audits of government financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance (SAS No. 63, par. 17, fn. 9 and GAO, ch. 3, par. 41)?	N319				
For those programs where the study and evaluation of internal control systems did not extend beyond the preliminary review phase, do the working papers document (GAO, ch. 5, pars. 19 and 20):					
Procedures used to perform the preliminary review?	N320				

Reasons why the review was not extended?

For the systems for which the full study and evaluation were performed (SAS No. 63, par. 15 and SAS No. 55):

Do the working papers document the auditor's understanding of the systems?

Were tests of controls performed for these systems?

In the judgment of the reviewer, were the nature and extent of tests of controls sufficient to enable the auditor to determine if the appropriate policies and procedures were being applied as described?

Do the working papers adequately document the work performed and the conclusions reached? (GAO, ch. 4, par. 27)

Did the auditor document his communication of non-reportable conditions in the internal control structure that were not included in the required reports (SAS No. 63, pars. 35 and 36 and GAO, ch. 5, par. 25)?

Were all material instances of weaknesses in internal controls and all identified instances of noncompliance with applicable laws and regulations adequately evaluated and documented?

If applicable, were adequate tests of compliance with applicable laws and regulations that have a direct and material effect on the financial statements performed and documented (SAS No. 63, pars. 15 and 20)?

If evidence exists of situations or transactions that could be indicative of fraud, waste, abuse, or illegal acts (SAS Nos. 16 and 17), did the auditor:

Either obtain management's approval to extend audit steps and procedures to identify the effect on the entity's financial statements or consider issuing a disclaimer of opinion because of a scope limitation?

QUES.	N/A	YES	NO	REF.
N321				
N322				
N323				
N324				
N325				
N326				
N327				
N328				
N329				

Give prompt notice to the appropriate management officials of the entity arranging the audit?

QUES. N/A YES NO REF.

N330				
N331				
N332				
N333				

Was interfund activity properly reviewed and were differences between total interfund receivables and total interfund payables investigated and resolved?

Did the auditor submit the reports to the organization audited and to those requiring or arranging for the audit within the required time? (GAO, ch. 5, par. 32)

Has the auditor established policies or procedures for complying with the additional requirements concerning retaining working papers and reports and making the working papers available upon request to the cognizant agency or its designee or the GAO at the completion of the audit? (GAO, ch. 4, pars. 21 and 22)

#### IV. WORKING PAPER AREAS

**NOTE:** In the key audit areas reviewed, the reviewer should evaluate whether the reviewed firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements as described in SAS No. 31. The questions contained in each section represent some of the audit procedures or tests that the reviewed firm might have undertaken to form conclusions in support of financial statement assertions of material significance. If an audit area is not reviewed because it does not represent a key audit area for that engagement, the reviewer should place an "X" in the box above the name of the working paper area. (As indicated on page NE-6, the reviewer should indicate the reason for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" above the area.)



#### Cash

Were bank accounts confirmed and were reconciling items existing at the balance sheet date cleared by reference to subsequent statements obtained directly from the bank (or obtained from the client and appropriately tested)?

Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine that transactions were recorded in the proper period?

Do the working papers indicate that the following were considered:

Restrictions on cash balances?

Confirmation of bank credit arrangements such as compensating balances?

Confirmation of liabilities and contingent liabilities to banks?

Authorization for interfund cash transactions?

Determination that all cash accounts have been identified and appropriately recorded?

Based on the evaluation of internal accounting control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of cash appear adequate?

QUES.	N/A	YES	NO	REF.
A301				
A302				
A303				
A304				
A305				
N401				
N402				
A306				



### Receivables

Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternate procedures?

If confirmation work was performed prior to year-end, is there evidence that there was an adequate review of transactions from the confirmation date to the balance sheet date?

If a significant number and amount of accounts receivable were not confirmed, is there evidence that other auditing procedures were performed?

Were significant notes receivable confirmed as of the balance sheet date?

Were the results of confirmation and alternative procedures summarized and were appropriate conclusions drawn in the working papers?

Was collateral (if any) for receivables examined with respect to existence, ownership and value?

Were procedures performed to provide evidence that pledge receivables are properly recorded in the appropriate funds?

Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered?

Was there evidence in the working papers that inquiry was made and consideration given to whether receivables are sold, pledged, assigned or otherwise encumbered?

Was receivable work coordinated with tests of support and revenue, including cut-off tests?

Were procedures performed to verify whether the carrying value of notes receivable reflects the present value of the consideration given and the appropriate interest rate?

Based on the evaluation of internal accounting control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of receivables appear adequate?

QUES.	N/A	YES	NO	REF.
A307				
A308				
A309				
A310				
A311				
A312				
N403				
A314				
A315				
A316				
A317				
A318				



### Inventories

Do the working papers indicate that there were adequate tests of:

Physical observation, if material?

The clerical accuracy of the compilation of the inventory?

Costing methods and substantiation of costs used in pricing all elements (raw material, work-in-process and finished goods) of the inventory?

Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?

Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?

Based on the evaluation of internal accounting control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of inventory appear adequate?



### Investments

Was a summary schedule prepared (or obtained) and details examined with respect to description, purchase price and date, changes during the period, income, market value, etc. of investments?

Were all securities either examined or confirmed?

Do the working papers reflect consideration of changes in the carrying value of marketable securities and other investments and the appropriateness of unrealized gains and losses that were recognized?

Were realized gains and losses on dispositions of securities properly computed?

When investments are held by an outside custodian, who is authorized by the client to execute transactions without specific authorization of individual transactions, did the auditor consider the guidance in SAS No. 44, par. 16?

QUES.	N/A	YES	NO	REF.
N404				
A324				
A325				
A328				
A326				
A333				
A334				
A335				
N406				
A336				
N405				

QUES. N/A YES NO REF.

Do the working papers indicate tests of unit market value calculations of pooled investments funds, including the propriety of handling additions to and withdrawals from the pool?

N407

Were income and realized and unrealized gains and losses from investments examined for proper allocation to the individual funds?

N408

Do the working papers indicate that consideration was given to indications that investments were pledged, restricted, or had limitations on immediate use?

N409

Do the working papers indicate that risk of loss on repurchase agreements was properly considered?

N410

Do the working papers indicate that repurchase security transactions were reviewed for consistency with the disclosures of the terms or circumstances of the transactions?

N411



Prepaid Expenses, Intangible Assets, Deferred Charges, etc.

Were adequate tests made and/or confirmations received for all material:

Prepaid expenses?

A342

Intangible assets?

A343

Deferred charges?

A344

Other?

A345

Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?

A346

If insurance policies were pledged as collateral or subjected to premium financing, were the related loans properly accounted for?

A348



Collections of Works of Art and Similar Items

If the collection has been capitalized, do the working papers indicate that the auditor tested the reasonableness of the collection's carrying value?

N412

	QUES.	N/A	YES	NO	REF.
If a capitalized collection is considered exhaustible, do the working papers indicate that the auditor tested the reasonableness of the related amortization?	N413				
Whether or not a collection was capitalized, are the tests adequate with respect to acquisitions and deaccessions?	N414				
If the collection is capitalized:					
Were physical inventories observed at all locations where relatively large amounts are located?	N415				
Do the working papers contain evidence that counts were correctly made and recorded (i.e., was control over inventory tags or count sheets maintained and were test count quantities reconciled with the quantities reflected in the final inventory)?	N416				
If the collection is considered inexhaustible and has not been capitalized, do the working papers indicate that the auditor:					
Evaluated the internal controls over the collection?	N417				
Observed a physical inventory at all locations where relatively large amounts are located?	N418				
<input type="checkbox"/>					
<u>Property and Equipment</u>					
Was a summary schedule by source prepared (or obtained) to show beginning balances, changes during the period and ending balances for:					
Property and equipment?	A349				
Accumulated depreciation?	A350				
Do tests appear adequate and were proper conclusions drawn with respect to:					
Additions (by the examination of supporting documents and/or physical inspection)?	A351				
Retirements, etc. (including examination of miscellaneous income, scrap sales?	A352				



QUES. N/A YES NO REF.

The adequacy of current and accumulated provisions for depreciation and depletion?

A353

Valuation of assets not previously capitalized?

N419

Do the working papers indicate that the auditor considered the possibility that property was subject to liens?

A355

Was a review made to determine that capital expenditures are classified in the proper fund accounts?

N420

Based on the evaluation of internal accounting control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of property, plant and equipment appear adequate?

A356



#### Liabilities

Were accounts payable adequately tested for propriety?

A357

Were liabilities properly classified as current or long-term and in the proper fund?

A358

Was an adequate search performed for unrecorded liabilities at the balance sheet date?

A359

Was consideration given to expenditures and expenses that might require accrual (e.g., pensions or compensated absences), and to whether accrued expenses were reasonably stated?

A361

Were procedures performed to determine whether tax deferred annuity plans are appropriately calculated to conform with GAAP and IRS regulations?

N421

Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed?

A362

Were procedures performed to verify the completeness and reasonableness of transactions recorded in mandatory sinking funds and other types of debt-related reserve funds?

N422

Is there evidence that the release of funds from these reserves was tested and appropriately recorded in the financial statements?

N423

Were procedures performed to verify whether the carrying value of debt obligations reflects the present value of the consideration received and the appropriate interest rates?

Is there evidence of testing of the company's compliance with covenants to debt obligations?

Was consideration given to any liabilities (including the effect of any timing differences) resulting from the Federal excise tax on investment income of private foundations and any Federal and State taxes on unrelated business income?

Do the tests of interfund borrowings appear adequate with respect to:

Legal restrictions, if any, on such borrowings?

Authorization?

Classification?

Collectibility of amounts due from other funds?

Appropriateness of interest accruals and payments?

Based on the evaluation of internal accounting control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, do the substantive tests of liabilities appear adequate?



#### Deferred Revenue

Do the working papers indicate that consideration was given to whether the basis of deferring revenue is reasonable and consistent with the donors' or grantors' restrictions?

Was consideration given to matching requirements, if any?

Do the working papers indicate that consideration was given to the appropriateness of the amounts of restricted gifts, grants, bequests, donations, or other income recognized as current revenue or support?

QUES.	N/A	YES	NO	REF.
A363				
A364				
N424				
N425				
N426				
N427				
N428				
N429				
A365				
N430				
N431				
N432				



### Commitments and Contingencies

Do the working papers include indication of the following:

Inspection of minutes of meetings of the governing board and other appropriate committees of the board?

Inspection of contracts, loan agreements, leases, and correspondence from donors, grantors, and governmental agencies, and similar documents?

Accumulation and analysis of confirmation responses from banks and lawyers?

Inquiry and discussion with management (including management's written representations concerning liabilities and litigation, claims, assessments, and regulatory requirements as applicable?

Is there indication that procedures were performed to uncover the need for recording or disclosing events subsequent to the date of the financial statements? (SAS No. 1, sections 560.10, 560.11 and 560.12)

Did the auditor consider evidence of the entity's activities (such as lobbying) which might cause the entity to lose its tax exempt status or be subject to penalties or taxes?

If the entity is a private foundation, as defined by IRC section 509, did the auditor determine whether the entity complied with IRS regulations concerning required distribution of income and prohibited activities?

Has adequate consideration been given to loss contingencies in accordance with SFAS No. 5?



### Fund Balance

Where applicable, were authorizations of changes in reserves and designated balances examined?

QUES. N/A YES NO REF.

A372				
A373				
A374				
A375				
A377				
N433				
N434				
N435				
N436				

Do the working papers indicate that there were adequate inquiries, where applicable, as to proper classification, description and disclosure of components of the fund balance?

Do the working papers indicate that fund transfers were properly approved and recorded?

If an endowment fund is maintained, do the working papers indicate that fund income is distributed to unrestricted and restricted funds in accordance with donors' stipulations?



Revenues, Expenses, Support, and Capital Additions

Were revenues and expenses for the period compared to the budget and the preceding period and reviewed for reasonableness, and were significant variances and fluctuations explained?

Was adequate consideration given to:

The entity's revenue recognition policy?

Income recognition on transactions where the earnings process was not complete?

Do the working papers indicate that consideration was given to the valuation and classification of revenue derived from service fees, such as subscription and membership income, and sales of publications and other items?

If the entity is reimbursed by a third party for costs incurred in connection with providing services to others:

Were pertinent sections of significant third-party contracts reviewed to determine the basis for reimbursement?

Were cost reimbursement reports and the underlying support reviewed?

Were appropriate allocations made of indirect costs among the entity's programs?

QUES.	N/A	YES	NO	REF.
N437				
N438				
N439				
A383				
A384				
A385				
N440				
N441				
N442				
N443				

QUES. N/A YES NO REF.

Do the working papers indicate that the auditor considered actual receipt of, propriety of, valuation method used, and any restrictions placed on amounts received during the current period from:

Cash contributions?

N444

Donated services?

N445

Gifts of securities, materials, facilities, and other nonmonetary items?

N446

Future interests and interest free loans?

N447

If expenses are classified by function, did the auditor adequately test the classifications and allocations?

N448

If joint costs of multipurpose activities are incurred, were the requirements of SOP 87-2 appropriately considered?

N449

Were fundraising costs expensed in the proper period and in the proper fund?

N450

If grants are awarded to other organizations, did the auditor review:

The classification of the grants?

N451

The effects of the grantees' compliance or non-compliance with performance requirements?

N452

Were tests of payrolls, including account distribution, made?

A381

With regard to pension plans, do the tests made of the expense and liabilities appear adequate?

N453

Based upon the evaluation of internal accounting control, or, if early application of SAS No. 55 was elected, based on the assessment of control risk, did the substantive tests (review, analysis, and testing) of revenues and expenditures/expense appear adequate?

A388

Other

Have leases been examined to determine that capital, sales, and direct financing leases have been properly accounted for?

A389

Were appropriate procedures applied to additional information?

If the work of a specialist was used, did the auditor apply the guidance in SAS No. 11, par. 9 through 12?

Were specific procedures for determining the existence of related parties and examining identified related party transactions applied? (SAS No. 45)

If the entity is affiliated with or otherwise financially related to other entities, did the auditor consider the need for combined financial statements or disclosure of the relationship?

QUES.	N/A	YES	NO	REF.
A390				
A393				
A394				
N454				

## V. FUNCTIONAL AREAS

### Independence

If any evidence was noted during the review that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered?

Have personnel been appropriately advised as to the need to observe independence requirements concerning the client or any other nonrelated parent, investor, investee, subsidiary or affiliate?

Was timely and appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity?

Were the fees for the prior year's services paid prior to issuance of the report for the current engagement?

### Assigning Personnel to Engagements

Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel?

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided?

### Consultation

Was there appropriate consultation and documentation:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it?

Were the firm's conclusions consistent with professional standards?

If the engagement records indicated a difference of opinion between engagement personnel and a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented?

QUES.	N/A	YES	NO	REF.
A501				
A502				
A503				
A504				
A506				
A507				
A508				
A509				
A510				
A511				

## Supervision

Were appropriate and knowledgeable engagement personnel involved in the planning process?

Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan?

Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey his approval or modifications to the engagement staff?

Does it appear that hours charged by the partner, manager, and, where applicable, by the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed?

Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

Review of internal control structure:

Manual system?

EDP system?

Audit work programs?

Financial statement disclosures?

Working papers and financial statement reviews?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?

Were the firm's guidelines for the form and content of audit working papers complied with?

Were differences of professional opinion between engagement personnel resolved in accordance with firm policy?

QUES.	N/A	YES	NO	REF.
A512				
A513				
A514				
A515				
A516				
A517				
A518				
A519				
A520				
A521				
A522				
A523				
A524				



QUES. N/A YES NO REF.

If used, were scientific audit tools (e.g., computer auditing, statistical sampling) properly evaluated by persons with training in these areas? (SAS No. 48)

A525				
A526				
A527				
A528				
A529				

If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that the work performed was complete and conformed to professional standards and firm policy and was that review documented?

#### Advancement

If required by firm policy, was the staff on this engagement appropriately evaluated?

#### Acceptance and Continuance of Clients

Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?

#### Professional Development

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)?



## Appendix A - Audits of Governmental Grantees

NOTE: These questions are derived from the U. S. General Accounting Office's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 "Yellow Book") and the Office of Management and Budget Circular A-110. Reviewers may wish to consult these documents for more detailed information on standards concerning the audits of governmental grantees.

(Reviewers of engagement on which Government Auditing Standards (1988 revision) and SAS No. 63, "Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance" were applied should complete Section III instead of this appendix).

	QUES.	N/A	YES	NO	REF.
If the audit was required to be conducted in accordance with the GAO's Standards for Audit, do the auditor's report(s) include references to GAO's Standards for Audit, and appropriately cover:					
The financial statements, including, where presented, the combining and individual fund financial statements?	N601				
Internal accounting control based solely on a study and evaluation made as part of the audit of the financial statements?	N602				
Compliance with finance-related legal and contractual provisions including a summary of questioned costs and/or instances of noncompliance?	N603				
When appropriate, did the auditors issue a report on fraud, abuse, or an illegal act, or indications of such acts to the entity arranging the audit?	N604				
When appropriate, was the scope section of the report properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results?	N605				
If required, did the auditor's report on internal control (accounting and administrative) identify:					
The entity's significant internal accounting controls and those controls designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations?	N606				
The controls that were evaluated?	N607				
The controls that were not evaluated?	N608				

	QUES.	N/A	YES	NO	REF.
The material weaknesses identified as a result of the evaluation?	N609				
If required, did the auditor's report on compliance include:					
A statement of positive assurance with respect to those items tested for compliance with laws and regulations pertaining to financial reports?	N610				
Negative assurance on those items not tested?	N611				
A summary of material instances of noncompliance?	N612				
If required by contractual obligations, were findings presented in accordance with the guidance in the GAO's Standards for Audit regarding reporting on economy and efficiency audits and program results audits?	N613				
Was interfund activity properly reviewed and were differences between total interfund receivables and total interfund payables investigated and resolved?	N614				
If applicable, were adequate tests of compliance with applicable laws and regulations made?	N615				
If evidence exists of situations or transactions that could be indicative of fraud, waste, abuse, or illegal expenditures and acts, did the auditor:					
Either obtain management's approval to extend audit steps and procedures to identify the effect on the entity's financial statements or consider issuing a disclaimer of opinion because of a scope limitation?	N616				
Give prompt notice to the appropriate management officials of the entity arranging the audit?	N617				
Were all material instances of weaknesses in internal controls and all identified instances of noncompliance with applicable laws and regulations:					
Adequately evaluated and documented?	N618				
Appropriately reported in accordance with applicable standards? (SAS No. 20 or 60, GAO's Standards for Audit, pp. 28-29 and OMB A-110, Attachment F)	N619				
Do the working papers indicate that consideration was given to prior audits of government financial assistance programs that disclosed questionable or disallowed costs, or instances of noncompliance?	N620				

## VI. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

- 
- \* The nature of the disposition of comments may vary, such as:
- o Note "resolved" and the manner of resolution.
  - o Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------



## VII. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

1. The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202) and other applicable standards including where applicable, the requirements of Government Auditing Standards and the Single Audit Act? YES\* ☐ NO ☐
2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified (see AU 561 and ET 203)? YES\* ☐ NO ☐
3. The auditor's reports, including all reports required by governmental agencies, were not appropriate in the circumstances? YES\* ☐ NO ☐
4. The documentation on this engagement does not support the firm's opinion on the financial statements? YES ☐ NO ☐
5. The firm did not comply with its policies and procedures on this engagement in all material respects? YES ☐ NO ☐

---

\* If this question is answered "yes," see additional guidance contained on pages 2-20 and 2-21 of the SECPS Manual (1986 edition) or the PCPS Peer Review Manual (1986 edition).



MATTER FOR FURTHER CONSIDERATION

CONTROL NO. \_\_\_\_\_

REVIEWER'S DESCRIPTION OF THE MATTER

REVIEWED FIRM AGREES WITH THE DESCRIPTION OF THE MATTER? YES \_\_\_ NO \_\_\_

REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

REVIEWER'S ADDITIONAL COMMENTS      Check One: Design \_\_\_\_\_  
Performance \_\_\_\_\_  
Compliance-Membership \_\_\_\_\_  
Compliance-Other \_\_\_\_\_  
Documentation \_\_\_\_\_

(Note: This sample MFC form has been reduced in size. The actual form is 8 1/2" x 14" and is available from the Quality Control Review Division staff.)

REVIEW CAPTAIN'S COMMENTS, IF ANY

REASON:

-----  
FIRM \_\_\_\_\_  
OFFICE CODE NO. \_\_\_\_\_

CONTROL NO. \_\_\_\_\_

Signatures

Dates

Engagement Partner \_\_\_\_\_

Reviewer \_\_\_\_\_

Team Captain \_\_\_\_\_

Compliance Questionnaire

Engagement

Section Element \_\_\_\_\_  
Program Step \_\_\_\_\_

No. \_\_\_\_\_  
Checklist Page \_\_\_\_\_  
Program Step \_\_\_\_\_



As Revised - 1990

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

CHECKLIST FOR REVIEW OF A  
COMPILATION OF FINANCIAL STATEMENTS

(SEE SEPARATE INSTRUCTIONS FOR USE OF THIS CHECKLIST)

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American Institute of Certified Public Accountants, Inc.  
1211 Avenue of the Americas, New York, NY 10036-8775

ENGAGEMENT PROFILE

Engagement Code No. \_\_\_\_\_ Office \_\_\_\_\_

Partner \_\_\_\_\_ Date of Financial Statements\* \_\_\_\_\_

Manager \_\_\_\_\_ Date of Report \_\_\_\_\_

Date Report Released \_\_\_\_\_

The responsibility of this office involves reporting on:

1. ☐ compiled balance sheet ☐ compiled financial statements  
    ☐ compiled income statement without statement of changes  
    ☐ complete set of compiled in financial position  
                                  financial statements

2. that (include) (omit) substantially all required disclosures and

3. that (include) (do not include) supplementary information.

The financial statements are for a nonpublic entity that is a (an):

- ☐ independent entity ☐ subsidiary, division or branch  
☐ consolidated or combined group ☐ other (explain)

The financial statements cover an (annual) (interim) reporting period.

Date that the fee for the prior year's engagement was paid \_\_\_\_\_

Key data reported on by this office for this engagement:

Total assets	\$	_____
Equity	\$	_____
Net sales	\$	_____
Net income	\$	_____

Major lines of business:

Complex or troublesome engagement areas:

Compilation hours on this engagement:

Partner	_____	
Manager (or equivalent)	_____	
Senior	_____	
Other	_____	
Total this office	_____	Total budgeted _____

\* \* \* \* \*

Date Engagement Review Performed \_\_\_\_\_ Date Checklist Reviewed  
by Team Captain \_\_\_\_\_

Reviewer \_\_\_\_\_ Signature \_\_\_\_\_

\*To determine the applicability of all cross-referenced pronouncements, their effective dates should be considered.





CHECKLIST FOR REVIEW OF A  
COMPILATION OF FINANCIAL STATEMENTS

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NOTE: This checklist has been updated through  
SSARS No. 6, SFAS No. 102, and FASB  
Interpretation No. 38.



## I. REPORT AND FINANCIAL STATEMENTS

**NOTE:** This is a highly summarized checklist taken from the AICPA financial reporting practice aid, Disclosure Checklists. Reviewers may wish to consult that checklist, a copy of which has been provided to the review team, for detailed information about the requirements of professional standards and for citations thereto. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

### Accountants' Reports

Is the report dated in conformity with the requirements of professional standards?

Does the report adequately disclose all required matters and does its language conform to that required by professional standards?

If required by the circumstances, does the accountants' report depart from the standard report and include appropriate language describing the modification?

If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards?

If supplementary information accompanies the basic financial statements, does the accountant describe in his report the degree of responsibility, if any, he is taking?

Does each page of financial statements that have been compiled include a reference to the accountants' report?

QUES. N/A\* YES NO REF.\*\*

C101				
C102				
C103				
C104				
C105				
C106				

---

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

Financial Statements and Footnotes\*\*\*

General

Are the financial statements suitably titled?

Is the presentation appropriate and disclosures adequate regarding:

    Significant accounting policies?

    Accounting changes?

    Comparative financial statements?

    Business combinations?

Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards?

Is summarized financial information disclosed for majority-owned subsidiaries that were not consolidated in years prior to the application of FASB No. 94?

If the entity controls a group of related entities, did the accountant consider the need for combined financial statements?

Are required disclosures made concerning related party transactions?

Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed?

Are foreign operations and export sales adequately disclosed?

Are nonmonetary transactions accounted for and disclosed?

With respect to contingencies and commitments:

    Are loss contingencies disclosed and/or accrued?

QUES.	N/A	YES	NO	REF.
C107				
C108				
C109				
C110				
C111				
C112				
C113				
C114				
C115				
C116				
C117				
C118				
C119				

---

\*\*\* Certain questions contained herein will not be applicable for compiled financial statements which omit substantially all disclosures and therefore should be answered accordingly.

	QUES.	N/A	YES	NO	REF.
Are commitments and other contingencies adequately disclosed?	C120				
Are the financial statements, where appropriate, adjusted for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?	C121				
If FASB No. 87 is being applied, is the following information on defined benefit pension plans adequately disclosed:					
A description of the plan?	C122				
The amount of net periodic pension cost and of required cost components?	C123				
A reconciliation of the plan's funded status with the amount reported in the employer's balance sheet?	C124				
The discount rate and rate of compensation increase used to measure the projected benefit obligation and the long-term rate of return on plan assets?	C125				
Other information concerning plan assets, benefits, and amortization methods?	C126				
Are all other pension plans adequately disclosed?	C127				
Are postretirement health care and life insurance benefits properly disclosed?	C128				
If the entity is or has been a "development stage enterprise," are adequate disclosures made?	C129				
Do the financial statements, where required, include appropriate presentations of:					
Segment information?	C130				
Major customers?	C131				
Futures contracts?	C132				
<u>Balance Sheet</u>					
Is the presentation appropriate and disclosure adequate regarding:					
Segregation of assets and liabilities into current and noncurrent classifications?	C133				

	QUES.	N/A	YES	NO	REF.
Valuation allowances?	C134				
Restricted cash, including compensating balances?	C135				
Marketable equity securities?	C136				
Other marketable securities?	C137				
Receivables:					
Unbilled receivables?	C138				
Loans and related origination fees?	C139				
Effect of interest rates which do not reflect market rates?	C140				
Receivables related to troubled debt restructurings?	C141				
Other receivables?	C142				
Inventories?	C143				
Investments?	C144				
Property and equipment, including accounting for depreciation, assets of discontinued operations, investment credit, and capitalized interest?	C145				
Sales-type, direct financing, and operating leases of lessors?	C146				
Other assets, including intangible assets, unamortized computer software costs, deferred tax assets and deferred charges?	C147				
Pledged assets?	C148				
Current liabilities?	C149				
Short-term liabilities expected to be refinanced?	C150				
Notes payable and other debt:					
Maturities and rates?	C151				

	QUES.	N/A	YES	NO	REF.
Other terms and covenants?	C152				
Effect of interest rates which do not reflect market rates?	C153				
Effect of troubled debt restructurings?	C154				
Effect of early extinguishment of debt?	C155				
Maturities and sinking fund requirements for the next five years?	C156				
Capital and operating leases of lessees?	C157				
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue?	C158				
Capital stock (number of shares authorized, issued, and outstanding, par or stated value per share, rights and preferences of various classes)?	C159				
Stock option and stock purchase plans?	C160				
Stock subscriptions receivable?	C161				
Retained earnings, including appropriations thereof and restrictions on dividends?	C162				
Changes in stockholders' equity?	C163				
Redemption requirements on capital stock for the next five years?	C164				
<u>Income Statement</u>					
Are the important components of the income statement separately disclosed?	C165				
Is the presentation appropriate and disclosure adequate regarding:					
Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?	C166				
Gains and losses, realized and unrealized from marketable equity securities?	C167				

	QUES.	N/A	YES	NO	REF.
Income and income taxes on investments in securities accounted for on the equity method?	C168				
Research and development costs?	C169				
Computer software costs?	C170				
Interest costs?	C171				
Discount or premium on notes receivable or payable?	C172				
Depreciation?	C173				
Pension costs?	C174				
Compensatory stock issuance plan?	C175				
Deferred compensation agreements?	C176				
Sales transactions in which the buyer has the right to return the product?	C177				
Product financing arrangements?	C178				
Income taxes, computed under the early application of FASB No. 96, to include:					
The types of temporary differences that cause significant portions of a deferred tax liability or asset?	C179				
Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status?	C180				
Reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations?	C181				
Amounts and expiration dates of operating loss and tax credit carryforwards?	C182				
Other information concerning tax expense, benefits and the effect of income taxes.	C183				



Income taxes computed under APB No. 11, including operating loss carry-forwards, investment tax credits, and reasons for difference of tax expense from customary relationship between income and taxes?

Discontinued operations?

Extraordinary and unusual items?

Statement of Changes in Financial Position

Is a statement of changes in financial position presented for each period for which an income statement is presented?

Does it disclose all important aspects of financing and investing activities?

Are net changes in each element of working capital disclosed?

Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided? (1)

Does it report cash provided or used by investing, financing, and operating activities?

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet?

Does it provide a reconciliation between net income and net cash flow from operating activities?

Are noncash investing and financing activities disclosed?

QUES. N/A YES NO REF.

C184				
C185				
C186				
C187				
C188				
C189				
C190				
C191				
C192				
C193				
C194				

(1) FASB No. 95, paragraph 34, encourages, but does not require, re- statement of comparative financial statements for earlier years. The reviewer should not answer this question "no" if the statement of changes in financial position is presented for comparative years, but should consider the appropriateness of the accountant's report in these circumstances.

If the indirect method of reporting net cash flows from operating activities was used were the amounts of interest and income taxes paid disclosed?

Other

If the industry in which the client is practicing is covered by an accounting and audit guide, are the suggested format, statements, and disclosures consistent with the guide?

QUES.	N/A	YES	NO	REF.
C195				
C196				

## II. GENERAL PROCEDURES

	QUES.	N/A	YES	NO	REF.
Was an engagement letter issued or a written memorandum of an oral understanding prepared to provide a record of the understanding with the client as to the services to be provided? (SSARS No. 1, paragraph 8 requires the accountant to establish an understanding with the entity, preferably in writing)	C201				
Was information obtained about the accounting principles and practices of the industry in which the entity operates and about the entity's business transactions, the form of its accounting records, the stated qualifications of its accounting personnel, the accounting basis on which the financial statements are to be presented, and the form and content of the financial statements or, if information was obtained from prior engagements, was it updated for changed circumstances, and given appropriate consideration (e.g., proposed work program, manpower requirements, etc.)? (SSARS No. 1, paragraphs 10, 11 and 12)	C202				
If the subject engagement was originally intended to be an audit, rather than a compilation of financial statements, did the accountant consider: (SSARS No. 1, paragraph 45)					
The reason given for the client's request, particularly the implications of a restriction on the scope of the examination, whether imposed by the client or by circumstances?	C203				
The additional audit effort required to complete the examination?	C204				
The estimated additional cost to complete the examination?	C205				
Did the accountant consider whether it was necessary to perform other accounting services, such as assistance in adjusting the books of account or consultation on accounting matters, in compiling the financial statements? (SSARS No. 1, paragraph 11)	C206				

Is there an indication in accordance with firm policy that the accountant read the compiled financial statements and considered whether such financial statements appeared to be appropriate in form and free from obvious material errors? (SSARS No. 1, paragraph 13)

If the accountant became aware that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory for the purpose of compiling financial statements, did the accountant obtain additional or revised information? (SSARS No. 1, paragraph 12)

Have all questions, exceptions or notes, posed during the work been followed up and resolved?

If the accountant had become aware that information supplied by the entity was incorrect, incomplete or otherwise unsatisfactory subsequent to the date of his report, did he consider the guidance in SSARS No. 1, paragraph 42 in determining an appropriate course of action, and does the matter appear to be properly resolved?

QUES.	N/A	YES	NO	REF.
C207				
C208				
C209				
C210				

### III. FUNCTIONAL AREAS

#### Independence

If any evidence was noted during the peer review which may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered?

Have personnel been appropriately advised about the need to observe independence requirements concerning the client and any other related non-client parent, investor, investee, subsidiary or affiliate?

Were the fees for the prior year's services paid prior to issuance of the current year's report?

Assigning Personnel to Engagements (These steps may not be necessary for recurring compilation engagements with no unusual complexity.)

Were scheduling and staffing requirements identified on a timely basis and approved by the appropriate personnel?

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement, and the extent of supervision provided?

#### Consultation

Was there appropriate consultation and documentation thereof:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it?

Were the firm's conclusions consistent with professional standards?

If the engagement records indicated a difference of opinion between engagement personnel and a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented?

QUES.	N/A	YES	NO	REF.
C301				
C302				
C303				
C304				
C305				
C306				
C307				
C308				
C309				

### Supervision

Does it appear that engagement planning was appropriate in the circumstances?

Were forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

Work programs?

Financial statement disclosures?

Working paper preparation and reading of financial statements?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of compliance with the firm's policies applicable to compilation engagements?

Were the firm's guidelines, if any, for the form and content of working papers for a compilation complied with?

Were differences of professional opinion between engagement personnel resolved in accordance with firm policy?

### Advancement

If required by firm policy, was the staff on this engagement appropriately evaluated?

### Acceptance and Continuance of Clients

Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?

### Professional Development

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)?

QUES.	N/A	YES	NO	REF.
C310				
C311				
C312				
C313				
C314				
C315				
C316				
C317				
C318				
C319				
C320				

#### IV. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers on which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

- 
- \* The nature of the disposition of comments may vary, such as:
- o Note "resolved" and the manner of resolution.
  - o Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------

---

NOTE: Attach additional sheets if required.



## V. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe:

- o The firm did not perform the engagement in all material respects in accordance with standards for accounting and review services (ET 202)? YES\* ☐ NO ☐
- o The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the compilation report was not appropriately modified (AR 300.04 and ET 203)? YES\* ☐ NO ☐
- o The compilation report was not appropriate in the circumstances? YES\* ☐ NO ☐
- o The documentation on this engagement does not evidence compliance with professional standards? YES ☐ NO ☐
- o The firm did not comply with its policies and procedures on this engagement in all material respects? YES ☐ NO ☐

---

\* If this question is answered "yes," see additional guidance contained on pages 2-20 and 2-21 of the 1986 editions of the SECPS Manual and of the PCPS Peer Review Manual.



MATTER FOR FURTHER CONSIDERATION

REVIEWER'S DESCRIPTION OF THE MATTER

CONTROL NO. \_\_\_\_\_

REVIEWED FIRM AGREES WITH THE DESCRIPTION OF THE MATTER? YES \_\_\_ NO \_\_\_

REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

REVIEWER'S ADDITIONAL COMMENTS	<u>Check One:</u> Design	_____
	Performance	_____
	Compliance-Membership	_____
	Compliance-Other	_____
	Documentation	_____

(Note: This sample MFC form has been reduced in size. The actual form is 8 1/2" x 14" and is available from the Quality Control Review Division staff.)

TEAM CAPTAIN'S COMMENTS, IF ANY

-----  
FIRM \_\_\_\_\_  
OFFICE CODE NO. \_\_\_\_\_

CONTROL NO. \_\_\_\_\_

Signatures

Dates

Engagement Partner \_\_\_\_\_

Reviewer \_\_\_\_\_

Team Captain \_\_\_\_\_

Program Questionnaire

Engagement

Section \_\_\_\_\_  
Element \_\_\_\_\_  
Program Step \_\_\_\_\_

No. \_\_\_\_\_  
Checklist Page \_\_\_\_\_  
Program Step \_\_\_\_\_

## INSTRUCTIONS FOR USE OF MFC FORMS

1. If an MFC was prepared during the course of the review and subsequent information indicates that the form should not have been prepared, it may be discarded. (For example, an MFC may be discarded if it stated that no letter was received from legal counsel, but an acceptable letter had been received and misfiled and was subsequently found. Similarly, an MFC may be discarded if it stated that documentation in a particular area was inadequate, but the reviewer reconsidered and decided that documentation was adequate). On the other hand, if an MFC is prepared for a matter which is valid, the MFC should not be discarded even though it is subsequently decided that the matter need not be covered in the letter of comments.
2. Number MFCs consecutively (top and bottom) to establish correspondence between top and bottom stub.
3. MFCs relating to both functional and engagement review areas should be sorted by nature of comment.
4. Do not detach control stub until POB oversight is completed. (The stub should be detached only if the SEC accesses the working papers.)



AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

CHECKLIST FOR REVIEW OF A  
REVIEW OF FINANCIAL STATEMENTS

(SEE SEPARATE INSTRUCTIONS FOR USE OF THIS CHECKLIST)

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American Institute of Certified Public Accountants, Inc.  
1211 Avenue of the Americas, New York, NY 10036-8775

### ENGAGEMENT PROFILE

Engagement Code No. \_\_\_\_\_ Office \_\_\_\_\_

Partner \_\_\_\_\_ Date of Financial Statements\* \_\_\_\_\_

Manager \_\_\_\_\_ Date of Report \_\_\_\_\_

Senior \_\_\_\_\_ Date Report Released \_\_\_\_\_

The responsibility of this office involves reporting on the reviewed financial statements of a nonpublic entity that is a (an):

( ) independent entity ( ) subsidiary, division or branch  
( ) consolidated or combined group ( ) other (explain)

The financial statements cover an (annual) (interim) reporting period and (do) (do not) include supplementary information.

Date that the fee for the prior year's engagement was paid \_\_\_\_\_

Key data reported on by this office for this engagement:

Total assets	\$	_____
Equity	\$	_____
Net sales	\$	_____
Net income	\$	_____

Major lines of business:

Complex or troublesome engagement areas:

Review hours on this engagement:

Partner	_____
Manager (or equivalent)	_____
Senior	_____
Other	_____
Total this office	_____
Total budgeted	_____

Personnel Continuity:

<u>Partner</u>	<u>Manager (or equivalent)</u>
----------------	--------------------------------

Number of years assigned to this job	_____	_____
Number of years in current position on the job	_____	_____

\* \* \* \* \*

Date Engagement Review Performed _____	Date Checklist Reviewed by Team Captain _____
--	---

Reviewer _____	Signature _____
----------------	-----------------

\* To determine the applicability of all cross-referenced pronouncements, their effective dates should be considered.





CHECKLIST FOR REVIEW OF A  
REVIEW OF FINANCIAL STATEMENTS

CONTENTS

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NOTE: This checklist has been updated through  
SSARS No. 6, SFAS No. 102, and FASB  
Interpretation No. 38.



## I. REPORT AND FINANCIAL STATEMENTS

NOTE: This is a highly summarized checklist taken from the AICPA financial reporting practice aid, Disclosure Checklists. Reviewers may wish to consult that checklist, a copy of which has been provided to the review team, for detailed information about the requirements of professional standards and for citations thereto. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the enhancement.

### Accountants' Report

Is the report dated in conformity with the requirements of professional standards?

Does the report adequately disclose all required matters and does its language conform to that required by professional standards?

If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards?

If required by the circumstances, does the accountants' report depart from the standard report and include appropriate language describing the modification?

If supplementary information accompanies the basic financial statements, does the accountant describe in his report the degree of responsibility, if any, he is taking?

QUES.	N/A*	YES	NO	REF.**
R101				
R102				
R103				
R104				
R105				

---

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways:  
(1) discussed on an MFC with the MFC form number noted in the REF column, or  
(2) discussed on the pages provided at the end of this checklist if no MFC was generated.

Does each page of financial statements that have been reviewed include a reference to the accountants' report?

Financial Statements and Footnotes

General

Are the financial statements suitably titled?

Is the presentation appropriate and disclosure adequate regarding:

    Significant accounting policies?

    Accounting changes?

    Comparative financial statements?

    Business combinations?

Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards?

Is summarized financial information disclosed for majority-owned subsidiaries that were not consolidated in years prior to the application of FASB No. 94?

If the entity controls a group of related entities, did the accountant consider the need for combined financial statements?

Are required disclosures made concerning related party transactions?

Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed?

Are foreign operations and export sales adequately disclosed?

Are nonmonetary transactions accounted for and disclosed?

With respect to contingencies and commitments:

    Are loss contingencies disclosed and/or accrued?

QUES.	N/A	YES	NO	REF.
R106				
R107				
R108				
R109				
R110				
R111				
R112				
R113				
R114				
R115				
R116				
R117				
R118				
R119				

	QUES.	N/A	YES	NO	REF.
Are commitments and other contingencies adequately disclosed?	R120				
Are the financial statements, where appropriate, adjusted for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?	R121				
If FASB No. 87 is being applied, is the following information on defined benefit pension plans adequately disclosed:					
A description of the plan?	R122				
The amount of net periodic pension cost and of required cost components?	R123				
A reconciliation of the plan's funded status with the amounts reported in the employer's balance sheet?	R124				
The discount rate and rate of compensation increase used to measure the projected benefit obligation and the long-term rate of return on plan assets?	R125				
Other information concerning plan benefits, and amortization methods?	R126				
Are all other pension plans adequately disclosed?	R127				
Are postretirement health care and life insurance benefits properly disclosed?	R128				
If the entity is or has been a "development stage enterprise," are adequate disclosures made?	R129				
Do the financial statements, where required, include appropriate presentations of:					
Segment information?	R130				
Major customers?	R131				
Futures contracts?	R132				

### Balance Sheet

Is the presentation appropriate and disclosure adequate regarding:

Segregation of assets and liabilities into current and noncurrent classifications?

Valuation allowances?

Restricted cash, including compensating balances?

Marketable equity securities?

Other marketable securities?

Receivables--

    Unbilled receivables?

    Loans and related origination fees?

    Effect of interest rates which do not reflect market rates?

    Receivables related to troubled debt restructurings?

    Other receivables?

Inventories?

Investments?

Property and equipment, including accounting for depreciation, assets of discontinued operations, investment credit, and capitalized interest?

Sales-type, direct financing, and operating leases of lessors?

Other assets, including intangible assets, unamortized computer software costs, deferred tax assets, and deferred charges?

Pledged assets?

QUES.	N/A	YES	NO	REF.
R133				
R134				
R135				
R136				
R137				
R138				
R139				
R140				
R141				
R142				
R143				
R144				
R145				
R146				
R147				
R148				

	QUES.	N/A	YES	NO	REF.
Current liabilities?	R149				
Short-term liabilities expected to be re-financed?	R150				
Notes payable and other debt:					
Maturities and rates?	R151				
Other terms and covenants?	R152				
Effect of interest rates which do not reflect market rates?	R153				
Effect of troubled debt restructurings?	R154				
Effect of early extinguishment of debt?	R155				
Maturities and sinking fund requirements for the next five years?	R156				
Capital and operating leases of lessees?	R157				
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees, and deferred revenue?	R158				
Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?	R159				
Stock option and stock purchase plans?	R160				
Stock subscriptions receivable?	R161				
Retained earnings, including appropriations thereof and restrictions on dividends?	R162				
Changes in stockholders' equity?	R163				
Redemption requirements on capital stock for the next five years?	R164				



### Income Statement

Are the important components of the income statement separately disclosed?

Is the presentation appropriate and disclosure adequate regarding:

Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?

Gains and losses, realized and unrealized, from marketable equity securities?

Income and income taxes on investments in securities accounted for on the equity method?

Research and development costs?

Computer software costs?

Interest costs?

Discount or premium on notes receivable or payable?

Depreciation?

Pension costs?

Compensatory stock issuance plan?

Deferred compensation agreements?

Sales transactions in which the buyer has a right to return the product?

Product financing arrangements?

Income taxes, computed under the early application of FASB No. 96, to include:

The types of temporary differences that cause significant portions of a deferred tax liability or asset?

QUES.	N/A	YES	NO	REF.
R165				
R166				
R167				
R168				
R169				
R170				
R171				
R172				
R173				
R174				
R175				
R176				
R177				
R178				
R179				

Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status?

QUES. N/A YES NO REF.

R180

Reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pretax income or loss from continuing operations?

R181

Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes?

R182

Other information concerning tax expense, benefits and the effect of income taxes?

R183

Income taxes, computed under APB No. 11, including operating loss carry-forwards, investment tax credits, and reasons tax expense differs from the customary relationship between income and taxes?

R184

Discontinued operations?

R185

Extraordinary and unusual items?

R186

#### Statement of Changes in Financial Position

Is a statement of changes in financial position presented for each period for which an income statement is presented?

R187

Does it disclose all important aspects of financing and investing activities?

R188

Are net changes in each element of working capital disclosed?

R189

Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided?(1)

Does it report cash provided or used by investing, financing and operating activities?

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree to the amounts on the balance sheet?

Does it provide a reconciliation between net income and net cash flow from operating activities?

Are noncash investing and financing activities disclosed?

If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed?

Other

If the industry in which the client is practicing is covered by an accounting and audit guide, are the suggested format, statements, and disclosures consistent with the guide?

QUES.	N/A	YES	NO	REF.
R190				
R191				
R192				
R193				
R194				
R195				
R196				

---

(1) FASB No. 95, paragraph 34, encourages, but does not require, restatement of comparative financial statements for earlier years. The reviewer should not answer this question "no" if the statement of changes in financial position is presented for comparative years, but should consider the appropriateness of the accountant's report in these circumstances.

## II. GENERAL REVIEW PROCEDURES

	QUES.	N/A	YES	NO	REF.
Was an engagement letter issued or a written memorandum of an oral understanding prepared to provide a record of the understanding with the client as to the services to be provided? (SSARS No. 1, paragraph 8 requires the accountant to establish an understanding with the entity, preferably in writing)	R201				
Was information obtained about the accounting principles and practices of the industry in which the entity operates and about the entity's business or, if information was obtained from prior engagements, was it updated for changed circumstances, and given appropriate consideration (e.g., proposed work program, manpower requirements, etc.)? (SSARS No. 1)	R202				
If the subject engagement was originally intended to be an audit, rather than a review of financial statements, did the accountant consider: (SSARS No. 1, paragraph 45)					
The reason given for the client's request, particularly the implications of a restriction on the scope of the examination, whether imposed by the client or by circumstances?	R203				
The additional audit effort required to complete the examination?	R204				
The estimated additional cost to complete the examination?	R205				
Did the accountant's inquiries and analytical procedures consist of the following (SSARS No. 1, paragraph 27):					
Inquiries concerning the entity's accounting principles and practices and the methods followed in applying them?	R206				

	QUES.	N/A	YES	NO	REF.
Inquiries concerning the entity's procedures for recording, classifying, and summarizing transactions, and accumulating information for disclosure in the financial statements?	R207				
Analytical procedures designed to identify relationships and individual items that appear to be unusual?	R208				
Inquiries concerning actions taken at meetings of stockholders, board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements?	R209				
Reading the financial statements to consider, on the basis of information coming to the accountant's attention, whether the financial statements appear to conform with generally accepted accounting principles?	R210				
Obtaining reports from other accountants, if any, who have been engaged to audit or review the financial statements of significant components of the reporting entity, its subsidiaries, and other investees?	R211				
Inquiries of persons having responsibility for financial and accounting matters concerning (1) whether the financial statements have been prepared in conformity with generally accepted accounting principles consistently applied, (2) changes in the entity's business activities or accounting principles and practices, (3) matters as to which questions have arisen in the course of applying the foregoing procedures, and (4) events subsequent to the date of the financial statements that would have a material effect on the financial statements?	R212				
If the accountant became aware that information that came to his attention was incorrect, incomplete, or otherwise unsatisfactory, did he perform additional procedures as deemed necessary to achieve limited assurance that there were no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles? (SSARS No. 1, paragraph 29)	R213				

Do the accountant's working papers adequately reflect (SSARS No. 1, paragraph 30):

The matters covered in his inquiry and analytical procedures?

Unusual matters that he considered during the performance of the review, including their disposition?

If the accountant decided to obtain a representation letter from the owner, manager, or chief executive officer (SSARS No. 1, paragraph 31), does it appear to be appropriate in the circumstances?

If any circumstances were encountered by the accountant that precluded him from performing inquiries and analytical procedures as deemed necessary (SSARS No. 1, paragraph 36):

Did the accountant consider whether these circumstances would have resulted in an incomplete review and therefore afford him an inadequate basis for issuing a review report?

Did the accountant consider whether these same circumstances would also preclude him from issuing a compilation report on the entity's financial statements?

Do such determinations by the accountant appear to be proper?

Have all questions, exceptions, or notes posed during the work been followed up and resolved?

Does it appear that appropriate consideration was given to all passed adjustments?

If the accountant became aware that information supplied by the entity was incorrect, incomplete or otherwise unsatisfactory subsequent to the date of his report, did he consider the guidance in SSARS No. 1, paragraph 42, in determining an appropriate course of action, and does the matter appear to be properly resolved?

QUES. N/A YES NO REF.

R214				
R215				
R216				
R217				
R218				
R219				
R220				
R221				
R222				



### III. FUNCTIONAL AREAS

#### Independence

If any evidence was noted during the peer review which may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered?

Have personnel been appropriately informed as to the need to observe independence requirements with regard to this client and any other related nonclient parent, investor, investee, subsidiary or affiliate?

Was timely and appropriate assurance of independence of other firms engaged to perform segments of the engagement obtained?

Were the fees for the prior year's services paid prior to issuance of the current year's report?

#### Assigning Personnel to Engagements

Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel?

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement, and the extent of supervision provided?

#### Consultation

Was there appropriate consultation and documentation thereof:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it?

Were the firm's conclusions consistent with professional standards?

QUES.	N/A	YES	NO	REF.
R301				
R302				
R303				
R304				
R305				
R306				
R307				
R308				
R309				



If the engagement records indicated a difference of opinion between engagement personnel and a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented?

#### Supervision

Does it appear that engagement planning was appropriate in the circumstances?

Did the partner (or manager) approve the overall engagement plan (including the engagement program) as the final planning step and convey his approval or modifications to the engagement staff?

Does it appear that hours charged by the partner and manager were both adequate and appropriately timed to provide for any planning and supervision as the job progressed?

Were forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

Work programs?

Financial statement disclosures?

Working paper preparation and reading of financial statements?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of compliance with the firm's policies applicable to a review?

Were the firm's guidelines, if any, for the form and content of working papers for a review complied with?

QUES.	N/A	YES	NO	REF.
R310				
R311				
R312				
R313				
R314				
R315				
R316				
R317				
R318				
R319				

Were differences of professional opinion between engagement personnel resolved in accordance with firm policy?

Was an appropriate review made of the working papers, report and the financial statements, by a person whose position in the firm is commensurate with that responsibility, to determine that work performed is complete and conforms to professional standards and firm policy?

#### Advancement

If required by firm policy, was the staff on this engagement appropriately evaluated?

#### Acceptance and Continuance of Clients

Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?

#### Professional Development

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)?

QUES.	N/A	YES	NO	REF.
R320				
R321				
R322				
R323				
R324				



#### IV. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

- 
- \* The nature of the disposition of comments may vary, such as:
- o Note "resolved" and the manner of resolution.
  - o Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------

---

NOTE: Attach additional sheets if required.

## V. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

1. The firm did not perform the engagement in all material respects in accordance with standards for accounting and review services (ET 202)? YES\* ☐ NO ☐
2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the review report was not appropriately modified (AR 300.04 and ET 203)? YES\* ☐ NO ☐
3. The review report was not appropriate in the circumstances? YES\* ☐ NO ☐
4. The documentation on this engagement does not evidence compliance with professional standards? YES ☐ NO ☐
5. The firm did not comply with its policies and procedures on this engagement in all material respects? YES ☐ NO ☐

---

\* If this question is answered "yes," see additional guidance contained on pages 2-20 and 2-21 of the 1986 editions of the SECPS Manual and of the PCPS Peer Review Manual.



MATTER FOR FURTHER CONSIDERATION

CONTROL NO. \_\_\_\_\_

REVIEWER'S DESCRIPTION OF THE MATTER

REVIEWED FIRM AGREES WITH THE DESCRIPTION OF THE MATTER? YES \_\_\_\_ NO \_\_\_\_

REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

REVIEWER'S ADDITIONAL COMMENTS      Check One: Design \_\_\_\_\_  
Performance \_\_\_\_\_  
Compliance-Membership \_\_\_\_\_  
Compliance-Other \_\_\_\_\_  
Documentation \_\_\_\_\_

(Note: This sample MFC form has been reduced in size. The actual form is 8 1/2" x 14" and is available from the Quality Control Review Division staff.)

TEAM CAPTAIN'S COMMENTS, IF ANY

-----  
FIRM \_\_\_\_\_  
OFFICE CODE NO. \_\_\_\_\_

CONTROL NO. \_\_\_\_\_

Signatures

Dates

Engagement Partner \_\_\_\_\_

Reviewer \_\_\_\_\_

Team Captain \_\_\_\_\_

Program Questionnaire

Engagement

Section \_\_\_\_\_  
Element \_\_\_\_\_  
Program Step \_\_\_\_\_

No. \_\_\_\_\_  
Checklist Page \_\_\_\_\_  
Program Step \_\_\_\_\_



## INSTRUCTIONS FOR USE OF MFC FORMS

1. If an MFC was prepared during the course of the review and subsequent information indicates that the form should not have been prepared, it may be discarded. (For example, an MFC may be discarded if it stated that no letter was received from legal counsel, but an acceptable letter had been received and misfiled and was subsequently found. Similarly, an MFC may be discarded if it stated that documentation in a particular area was inadequate, but the reviewer reconsidered and decided that documentation was adequate.) On the other hand, if an MFC is prepared for a matter which is valid, the MFC should not be discarded even though it is subsequently decided that the matter need not be covered in the letter of comments.
2. Number MFCs consecutively (top and bottom) to establish correspondence between top and bottom stub.
3. MFCs relating to both functional and engagement review areas should be sorted by nature of comment.
4. Do not detach control stub until POB oversight is completed. (The stub should be detached only if the SEC accesses the working papers.)

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION

Instructions to Firms With No Accounting and Auditing  
Practice Which Desire Exemption From the  
Peer Review Requirement

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The purpose of these instructions is to provide guidance to firms with no accounting and auditing practice (including compilation and review engagements) in obtaining an exemption from the membership requirement with respect to a peer review since the Standards for Performing and Reporting on Peer Reviews clearly indicate that such reviews relate solely to a firm's accounting and auditing practice.

Questions regarding this information should be directed to the AICPA Quality Control Review Division at (212)575-6650.

1. Six months before the end of the period for which a peer review would otherwise be required, submit to the AICPA a letter of representation that states:
  - a. The firm has no accounting and auditing practice, including compilation and review engagements.
  - b. The firm will notify the section immediately if it engages in an accounting and auditing practice.\*
2. Along with the representation letter, submit the following evidential matter supporting the firm's compliance with the section's membership requirements:
  - a. A copy or a confirmation of the insurance policy currently in effect.
  - b. Photocopies of all required records of continuing professional education for qualified professional staff.
  - c. A listing of the firm's proprietors, partners or shareholders and an indication of whether or not they are CPAs and members of the AICPA.
3. The Peer Review Committee has the option of reviewing any portion of the material required to be submitted in support of compliance with the membership requirements. (See item 2 above.)

---

\* A peer review would be required within one year from the date of acceptance of an accounting or auditing client.

AICPA DIVISION FOR CPA FIRMS

PRIVATE COMPANIES PRACTICE SECTION

Program for AICPA Staff to Ascertain that a Firm is  
Exempt from Peer Review and Has Met the Other Membership  
Requirements of the Section

---

<u>Firm</u>	<u>Period</u>		
<u>Procedures</u>	<u>Yes</u>	<u>Findings</u> <u>No</u>	<u>Comments</u>
<b>MATTERS RELATIVE TO FIRM'S PRACTICE:</b>			
1. Does the representation letter submitted by the firm state:			
a. The firm has no accounting and auditing practice including compilation and review engagements?	—	—	
b. The firm will notify the section immediately if it engages in an accounting and auditing practice?	—	—	
<b>DOCUMENTATION SUPPORTING MEMBERSHIP REQUIREMENTS:</b>			
1. Has the requirement as to hours of continuing professional education been met for all professional staff based upon copies of records submitted?	—	—	
2. Has the firm paid its dues to the section?	—	—	

<u>Procedures</u>	<u>Yes</u>	<u>Findings</u>		<u>Comments</u>
		<u>No</u>		
3. Are a majority of the proprietors, partners, or shareholders of the firm CPAs?	_____	_____		
4. Are all of the proprietors, partners or shareholders that are eligible for AICPA membership members of the AICPA?	_____	_____		
5. Has the firm filed its annual report for the most recent year?	_____	_____		

Staff Letter to be Prepared  
for Firms with No Accounting  
and Auditing Practice

[AICPA Letterhead]

(Date)

To the Members of the PCPS Peer Review Committee

I have reviewed the representation letter of (John Smith, CPA) stating that the firm has no accounting and auditing practice and have reviewed the documentation supporting the firm's conformity with the membership requirements of the Private Companies Practice Section for the year ended (June 30, 19\_\_).

In my opinion, (John Smith, CPA) is exempt for the peer review requirement and is in conformity with other membership requirements of the Section in all material respects.

---

Technical Manager  
Quality Control Review

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

PRIVATE COMPANIES PRACTICE SECTION

GUIDELINES FOR REPORT REVIEW OF  
A FIRM'S ACCOUNTING PRACTICE

FOR FIRMS THAT ISSUE COMPILATION OR REVIEW  
REPORTS BUT PERFORM NO AUDITS

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American Institute of Certified Public Accountants, Inc.  
1211 Avenue of the Americas, New York, NY 10036-8775

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## INTRODUCTION

The executive committee of the Private Companies Practice Section has determined that, for the purpose of complying with the membership requirement of section IV.3(c) of the PCPS organizational document, firms that issue compilation or review reports but perform no audits may elect, instead of a peer review conducted in accordance with Standards for Performing and Reporting on Peer Reviews, a report review conducted in accordance with these guidelines. These guidelines have been established by the section's peer review committee to provide guidance to the reviewed firm and to the reviewers in connection with performing and reporting on such reviews.

### Timing of Report Reviews

Because of the time constraints imposed by the section's peer review program, firms electing a report review may not select a review year that ends later than March 31 and must have provided all requested information, including the financial statements selected for review and related information, by May 31 of the year in which the review takes place.

### Nature of Report Reviews

Compilation and review engagements differ substantially from audit engagements. A compilation of financial statements is limited to presenting in the form of financial statements information that is the representation of management, and the accountant does not express an opinion or any other form of

assurance on them. A review of financial statements consists principally of inquiries of company personnel and analytical procedures applied to financial data; it is substantially less in scope than an audit and the accountant undertakes only to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. In an audit, however, the auditor has an obligation to perform such procedures as he considers necessary in the circumstances to express his professional opinion on the financial statements taken as a whole.

Because of the nature and limitations of compilation and review engagements, peer reviewers, in reviewing such engagements, ordinarily place greater weight on whether the financial statements and the accountant's report appear to be in conformity with professional standards than on the documentation of compliance with the performance standards of Statements on Standards for Accounting and Review Services (SSARS). Indeed, SSARS 1 itself places little emphasis on the matters that should be described in the accountant's compilation or review working papers. Accordingly, the executive committee has determined that it is appropriate to institute report reviews for firms that issue compilation or review reports but perform no audits.

In general, a report review consists only of reading the financial statements of selected clients and the accountant's

compilation or review report thereon, together with certain information and representations provided by the reviewed firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with another comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of standards established by the AICPA Accounting and Review Services Committee. A report review does not include inspection of the working papers prepared on the selected compilation and review engagements, tests of the firm's administrative files and records, or interviews with firm personnel. Accordingly, it does not provide the reviewer with a basis for expressing any form of assurance on the firm's quality control policies and procedures for its accounting practice. The reviewer's report does indicate, however, based on the report review, whether anything came to the reviewer's attention that caused him to believe that the compilation and review reports issued by the firm in the conduct of its accounting practice during the year under review did not conform with the requirements of professional standards.

#### Reporting on Report Reviews

Because the scope of a report review is specifically focused on selected engagements, and not on the quality control system, material departures from professional standards noted in the compiled or reviewed financial statements or accountant's reports would be described in the report on the review.

If the reviewer determines that modification of the standard report on a report review is not adequate in the circumstances because, in his opinion, the firm may have a significant, pervasive quality control problem, the reviewer will, after consultation with the committee's staff, terminate the review and will not issue a report. In those circumstances, the reviewer will discuss his findings and recommendations with the reviewed firm and will report the termination of the review to the peer review committee in writing. The reviewed firm will be expected to agree to make appropriate changes to its system of quality control, to agree to undergo a full-scope peer review by June 30 of the following year, and to confirm these agreements in writing to the committee. These communications will be retained in the firm's public file until completion of that full-scope review. The firm will, of course, be expected to take appropriate action with respect to engagements with significant deficiencies.<sup>1</sup>

#### Compliance with Other Membership Requirements

Firms that elect a report review must provide the staff of the AICPA Quality Control Review Division with certain evidential matter concerning the firm's compliance with other PCPS membership requirements.

---

<sup>1</sup>See "Codification of Statements on Standards for Accounting and Review Services," sec. 100.42 (New York, AICPA, 1983).

## BASIC REQUIREMENTS FOR REPORT REVIEWS

### A. Conditions for a Report Review

1. In arranging the review, the firm must represent (a) that its accounting practice<sup>2</sup> consists solely of compilation and review engagements, (b) that it expects to have performed no audits during the year under review, and (c) that it will immediately notify the section if, prior to the date of the review, it is engaged to perform an audit.
2. The firm must agree to a review year that ends during the period from December 31 to March 31.
3. The firm must agree to provide the staff and the reviewer with all requested information by May 31 of the year in which the review takes place.
4. The firm must agree to respond promptly to questions raised by the reviewer or by the staff in the course of the review and to cooperate with the peer review committee in resolving any disagreements.
5. The firm must agree to undergo a full-scope, on-site peer review prior to June 30 of the year following the year in which the report review takes place if the reviewer concludes, after consultation with the committee's staff, that he is unable to issue a report on his report review.
6. The firm must agree that after the review commences it will not resign from the section to avoid any of these conditions and that its failure to comply with these conditions ordinarily will cause the peer review committee to decide to conduct a hearing for the purpose of determining whether to recommend sanctions against the firm.

### B. Appointment of Reviewers

1. Reviewers will be selected exclusively by the peer review committee, with the staff's assistance, from the data files of reviewers maintained in connection with the selection of committee-appointed review teams.
2. Reviewers will comply with the guidance in Standards for Performing and Reporting on Peer Reviews on confidentiality, independence, conflict of interest, competence, and due care.

### C. Information Required Before Review Begins

1. The firm is expected to provide the staff with written representations as to the matters covered in section (A) above, which will be included in an engagement letter prepared by the staff.

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<sup>2</sup>Accounting practice, as referred to in this document, encompasses all accounting, review and compilation services for which professional standards have been established. It does not include other accounting services performed either in connection with the compilation or review of financial statements or as a separate service.

2. The firm will be asked to provide a schedule of its compilation and review engagements that includes for each engagement the following information:
  - a) Name of client or client code.
  - b) Year-end.
  - c) Type of industry.
  - d) Initials of accountant with final responsibility for the engagement (for example, sole practitioner or engagement partner).
  - e) Initials of accountant in charge of field work (for example, manager, supervisor or senior accountant).
  - f) Total engagement hours for the year (an estimate may be used if necessary).
  - g) Frequency and nature of service—
    - (i) Frequency: Use 3 columns headed "annual," "quarterly," "monthly."
    - (ii) Nature: Use the following codes in the appropriate columns—
      - R - Review engagement.
      - C - Compilation engagement.
      - CO - Compilation engagement—substantially all required disclosures omitted
      - PF - Prescribed form engagement.
      - OS - Other services (for example, forecasts).
3. The firm will be asked to provide a list of professional staff showing name, position, length of service, and whether the individual is (a) a CPA and (b) a member of the AICPA.
4. The firm will be asked to provide the staff with the following additional information relative to its compliance with the section's membership requirements:
  - a) A copy or a broker's confirmation of the accountants' liability insurance currently in effect.
  - b) Photocopies of the continuing professional education records specified in section VI.B of the section's "Continuing Professional Education Requirements" for each professional for each of the educational years since joining the section, up to a maximum of the three most recent educational years.

D. Engagement Selection and Review

1. Using the information included in the schedule provided under C.2 above, the staff of the AICPA Quality Control Review Division will make a preliminary selection of engagements for review. Engagements selected for review should provide a reasonable cross-section of the firm's compilation and review practice, considering concentrations in specialized industries. As a general guideline, the selection would include:
  - a) From 10% to 15% of the number of year-end review engagements.
  - b) From 5% to 10% of the number of year-end, full-disclosure compilation engagements.
  - c) A small sample of interim financial statements.
2. For each of the engagements selected, the reviewed firm will provide the reviewer with the following:
  - a) A copy of the financial statements and accountant's report. (The client's name may be deleted.)
  - b) A completed "Engagement Questionnaire."

IT IS IMPORTANT THAT CAREFUL ATTENTION BE PAID TO COMPLETING THE ENGAGEMENT QUESTIONNAIRE. FAILURE TO COMPLETE ALL THE REQUESTED INFORMATION, ESPECIALLY ANY NEEDED COMMENTARY, WILL REQUIRE OTHERWISE UNNECESSARY ORAL OR WRITTEN COMMUNICATIONS AND MAY MAKE IT DIFFICULT OR IMPOSSIBLE FOR THE REVIEWER TO COMPLETE HIS WORK OFF-SITE.
3. The reviewer will perform and document his review using the forms provided herein. "Matter for Further Consideration" forms should be used to document all significant matters that require additional information or explanation of facts from the reviewed firm. The resolution of these matters will usually be made by telephone and the reviewer will, therefore, document the firm's response. However, the reviewer may wish to obtain a written representation from the firm as to matters that will be the subject of a paragraph modifying the reviewer's conclusion in the review report.

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM

Checklist for Firms Undergoing a Report  
Review

The purpose of this checklist is to assist firms that elect to undergo a report review to comply with the membership requirements of the Private Companies Practice Section.

Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Control Review Division (QCRD) staff member who initially contacted you or to the Quality Control Review Division at (212) 575-6650.

PRIOR TO THE REVIEW

	<u>INITIAL</u>	<u>DATE</u>
1. Advise the QCRD staff of the firm's intention to undergo a report review and of the year-end selected. (This should be done by responding on a timely basis to a request the firm will receive from the staff, usually in December, for information on the scheduling of a required peer review.)	<hr/>	<hr/>
2. QCRD staff will prepare an engagement letter setting forth the terms and conditions of the report review. Sign and return a copy of the engagement letter to the staff.	<hr/>	<hr/>
3. Submit to the QCRD staff upon request and on a timely basis:	<hr/>	<hr/>
a. Summary of CPE participation of all professionals in the firm for the three most recent educational years of the firm or since its membership in the section, whichever is less.	<hr/>	<hr/>
b. Copies of broker's confirmation of liability insurance coverage or current insurance policies and endorsements thereto.	<hr/>	<hr/>
c. A schedule of the firm's accounting clients. (See item C.2 of the section, "Basic Requirements for a Report Review.")	<hr/>	<hr/>



	<u>INITIAL</u>	<u>DATE</u>
d. A list of the firm's professional staff. (See item C.3 of the section, "Basic Requirements for a Report Review.")	_____	_____
4. For each engagement selected for review by the QCRD staff, forward to the reviewer:		
a. A copy of the financial statements and accountant's report. (The client's name may be deleted.)	_____	_____
b. A completed "Engagement Questionnaire."	_____	_____
<u>DURING THE REVIEW</u>		
5. Respond to the reviewer's inquiries and requests for further information.	_____	_____
<u>AFTER THE REVIEW</u>		
6. Upon receipt of the report and letter of comments, if any, prepare a response to the matters requiring action in the letter of comments. The response should describe the actions taken or planned with respect to such matters.	_____	_____
7. Within 30 days of the date the report and letter of comments are issued, submit to the PCPS Peer Review Committee at the AICPA, 1211 Avenue of the Americas, New York, NY 10036, a copy of the report, and if applicable, the letter of comments and the firm's response thereto. (Note: The report received by the firm is not official until it has been accepted by the Peer Review Committee. Therefore, it would not be prudent to have the report printed or published or to make any other reference to it in a public manner until that time.)	_____	_____

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM  
ENGAGEMENT QUESTIONNAIRE

(To Be Completed by Reviewed Firm)

FIRM NAME \_\_\_\_\_

General Data

Engagement Name or Code No. \_\_\_\_\_ (If client names have been deleted from the financial statements, code these sheets as Nos. 1, 2, etc. and mark the financial statements correspondingly.)

Period covered by financial statements _____	Total assets	\$ _____
Date of report _____	Long-term debt	\$ _____
Date report released _____	Equity	\$ _____
	Net sales	\$ _____
	Net income	\$ _____

Major lines of business \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

	<u>Name</u>	<u>Hours on Engagement</u>	<u>Number of Years on Job</u>
Accountant with final responsibility for the engagement (for example, sole practitioner or engagement partner)	_____	_____	_____
Accountant in charge of field work (for example, manager, supervisor, or senior accountant)	_____	_____	_____
Other personnel (Number only)	_____	_____	_____

Nature of Entity:

- ( ) Independent entity
- ( ) Consolidated group
- ( ) Subsidiary, division or branch
- ( ) Other (explain) \_\_\_\_\_

Nature of Service:

- ( ) Review engagement
- ( ) Compilation engagement
- ( ) Compilation engagement — Substantially  
all required disclosures omitted
- ( ) Other (explain) \_\_\_\_\_

Financial Statements Included:

- ( ) Balance sheet
- ( ) Income statement
- ( ) Statement of changes in financial position
- ( ) Supplementary information (describe) \_\_\_\_\_

- ( ) Other (explain) \_\_\_\_\_

Accounting Basis for Financial Statements

- ( ) Generally accepted accounting principles
- ( ) Cash basis
- ( ) Income tax basis
- ( ) Other (explain) \_\_\_\_\_

### Specific Engagement Questions

- A. Is the firm independent with respect to this entity? (Explain a "no" answer in the "commentary" section of this questionnaire.)
- B. Indicate whether the entity had any balances, transactions, events, or agreements of the following types that are not disclosed in the financial statements: (Do not answer this question for engagements to compile financial statements that omit substantially all required disclosures.)
1. Accounting changes.
  2. Business combinations.
  3. Related party transactions (including receivables and payables from officers, employees and affiliates).
  4. Leasing arrangements.
  5. Pension plans.
  6. Stock option or purchase plans.
  7. Contingencies.
  8. Commitments.
  9. Significant events between the balance sheet and report dates.
  10. Pledging of assets.
  11. Loan agreements or covenants imposing significant restrictions.
  12. Capital stock with significant rights or preferences.
  13. Discontinued operations.
  14. Extraordinary or unusual items.
  15. Restrictions on cash balances.
  16. Allowance for doubtful accounts.
  17. Other valuation accounts.

[illegible]

	YES	NO
18. Investment tax credits.		
19. Income tax effects of timing differences.		
20. Notes receivable or payable or debt with no interest rate or an inappropriate stated interest rate.		
21. Troubled debt restructurings.		
22. Unusual or specialized accounting policies.		
23. Research and development costs.		
24. Product financing arrangements.		
25. Foreign operations.		
26. Foreign currency transactions.		
27. Nonmonetary transactions.		
C. Were there any disagreements with the client on this engagement that, if not resolved to the firm's satisfaction, would have caused the firm to modify its report or to withdraw from the engagement?		
D. If the answer to any item under questions B and C above is "yes," provide sufficient information in the "commentary" section of this questionnaire to enable the reviewer to consider whether the item has been appropriately accounted for and/or disclosed.		

## Commentary on Engagement Questions

<u>Question Number</u>	<u>Commentary</u>
----------------------------	-------------------

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM

Reviewer's Checklist for Report Reviews

This checklist should be used for report reviews conducted by committee-appointed reviewers in conjunction with other guidance material issued to implement the report review program of the Private Companies Practice Section of the AICPA Division for CPA Firms.

Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the Quality Control Review Division (QCRD) staff member who initially contacted you or to the Quality Control Review Division at (212) 575-6650.

	Initial	Date
I. <u>Prior to the Review</u>		
1. Review background information furnished by the firm and obtain additional information, if needed.		
2. Obtain the financial statements, reports, and completed engagement questionnaires for the engagements selected by the staff. If certain engagements selected were excluded by the firm, determine the reasonableness of the explanation. Consider what other actions may be appropriate in the circumstances (such as selecting additional engagements) and whether there has been a limitation on the scope of the review.		
3. If the firm was previously reviewed, consider whether matters discussed in the letter of comments, if any, and the firm's response thereto require additional emphasis in the current review, and document your decision in the working papers.		
II. <u>During the Review</u>		
NOTE: THE REVIEW OF SELECTED ENGAGEMENTS IS EXPECTED TO BE MADE WITHIN 15 DAYS OF THE DATE THE MATERIALS IN PART I ARE RECEIVED.		
1. Perform the required procedures utilizing the "Reviewer's Engagement Checklist" for report reviews. Make any oral inquiries deemed necessary to consider whether the financial statements and accountant's report appear to conform with the requirements of professional standards. (Requests for working papers should not be necessary if the reviewed firm has properly completed the engagement questionnaire and can respond to any needed oral inquiries.)		

		Initial	Date
2.	Consult with QCRD staff whenever any significant problems or unusual situations arise, including:		
	a. When a modified report is being considered.		
	b. When no letter of comments will be issued.		
	c. When the reviewer encounters a situation that might cause the firm to consider whether there is a need to take action to prevent future reliance on a previously issued report.		
	d. When the reviewer concludes that a report issued by the firm was not in conformity with professional standards.		
3.	Ascertain that all items considered to be significant are included on a "Matter for Further Consideration" (MFC) form.		
4.	Review all matters, including the reviewed firm's responses, summarized on MFC forms. Make sure the reviewed firm agrees with the facts or that its reasons for disagreement are explained. Document on each MFC form its disposition, including the reasons for inclusion in or exclusion from the letter of comments.		
5.	Notify QCRD staff if there is a change in timing for completion of the review.		
III. <u>At Completion of Review</u>			
1.	Communicate findings to appropriate individuals in the firm. Remind the firm that—		
	a. The report and letter of comments, if any, are not final until accepted by the Peer Review Committee.		
	b. It is the reviewed firm's responsibility to send the report and, if applicable, the letter of comments and response thereto, to the AICPA Quality Control Review Division within 30 days of the date the report and letter of comments are issued.		
2.	Prepare appropriate report on results of the review on AICPA letterhead supplied by QCRD staff.		



3. Prepare letter of comments on matters that may require action, if any, on AICPA letterhead.
4. Complete summary review memorandum questionnaire and place in working papers. (See attached Appendix A.)
5. Within 30 days of completion of the review, submit report and letter of comments, if any, to the reviewed firm.
6. Notify QCRD staff that review has been completed and that report and letter of comments, if any, have been issued. (Use attached notification form - Appendix B.)
7. When completed and in condition for review, but within 30 days of completion of the review, send all working papers to the AICPA Quality Control Review Division.
8. Submit your bill to the AICPA Quality Control Review Division for payment. (Reviewers will be paid directly by the AICPA.) Make sure the bill includes the federal employer identification number for Form 1099 purposes.

Initial    Date	

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM  
SUMMARY REVIEW MEMORANDUM

Reviewed Firm's Name \_\_\_\_\_

Reviewed Firm's Address \_\_\_\_\_

Peer Review Year-End \_\_\_\_\_

Parts A and B to be completed by QCRD staff. Parts C and D to be completed by reviewer.

**A. Description of Firm**

**1. Professional Staff Profile:**

	<u>TOTAL</u>
Sole practitioner or partners	
Supervisory personnel (or equivalent)	
Other professionals	_____ _____

**2. Accounting Statistics:**

	<u>INTERIM</u>		<u>YEAR-END</u>		<u>TOTAL</u>	
	<u>No. of</u>		<u>No. of</u>		<u>No. of</u>	
	<u>Hrs.</u>	<u>Engs.</u>	<u>Hrs.</u>	<u>Engs.</u>	<u>Hrs.</u>	<u>Engs.</u>
Reviews						
Compilations-full disclosure						
Compilations-substantially all disclosures omitted						
Other accounting services	_____ _____	_____ _____	_____ _____	_____ _____	_____ _____	_____ _____

**3. Indicate extent of industry specializations, if any: \_\_\_\_\_**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**B. Scope of Work to Be Reviewed**

**1. Engagements Selected:**

	INTERIM		YEAR-END		TOTAL	
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
Reviews						
Compilations-full dis- closure						
Compilations-substantially all disclosures omitted						
Other accounting services						
Percentage of practice to be reviewed						

**2. Describe basis for selection of engagements:** \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**C. Reviewer's Representation on Scope**

1. Did you review all engagements selected by the staff? Yes \_\_\_\_\_ No \_\_\_\_\_  
If no, describe the omissions (including type and number of engagements and engagement hours), the reasons therefor, and indicate whether and how you were satisfied as to the scope of the review.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

2. Did you find it necessary to increase the scope of the review? Yes \_\_\_\_\_ No \_\_\_\_\_  
If yes, describe the extent and reasons for the increase (including the type and number of engagements and engagement hours).

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**D. Overall Findings and Conclusions:**

1. Attach a copy of the report issued.
2. Was a letter of comments issued? Yes\_\_\_\_ No\_\_\_\_. If yes, attach a copy. If no, give reason why no letter of comments was issued.

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3. Describe the nature and extent of each matter discussed with senior management of the reviewed firm which was not deemed of sufficient significance to include in a letter of comments. (Reference may be made to appropriate MFC forms.)

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4. Did the review disclose any situations which led the reviewer to conclude that the reviewed firm should consider taking action to prevent future reliance on a previously issued report? Yes\_\_\_\_ No\_\_\_\_. If noted, describe such situations fully, indicate whether the firm did consider the matter, describe the actions the firm has taken or plans to take, and indicate whether you concur with that action.

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5. Did the reviewer conclude in any instances that the report issued by the firm was not in conformity with professional standards? Yes\_\_\_\_ No\_\_\_\_. If noted, describe such instances fully, indicate whether the firm agrees with you, describe the actions the firm has taken or plans to take, and indicate whether you concur with that action.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Reviewer's Signature \_\_\_\_\_

Date \_\_\_\_\_

ATTACHMENT

Cost Information

A. Budget to Actual Comparison:

	<u>Actual Hours</u>
Planning	_____
Engagement Review	_____
Report	_____
Letter of Comments	_____
Other (describe if significant)	_____
Total Hours	_____
Hours Per Engagement Letter	_____
Rate/Hour	_____
Total Amount	_____

- B. Does actual time exceed the upper end of the estimated range by more than 15%? Yes\_\_\_\_ No\_\_\_\_. If yes, describe the reasons for the overrun, indicate that the matter has been discussed with the reviewed firm, and indicate whether the overrun is acceptable to the firm.

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Reviewer's Signature \_\_\_\_\_

Date \_\_\_\_\_

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM  
Review Completion Notification Form

Date \_\_\_\_\_

To: Quality Control Review Division  
American Institute of CPAs  
1211 Avenue of the Americas  
New York, New York 10036

From: \_\_\_\_\_  
Reviewer

\_\_\_\_\_  
Review Number

The Private Companies Practice Section report review of \_\_\_\_\_  
\_\_\_\_\_ has been completed.

The review report dated \_\_\_\_\_ has been issued and was mailed to  
the reviewed firm on \_\_\_\_\_. The working papers will be shipped  
to the Institute on or about \_\_\_\_\_.

☐

A letter of comments dated \_\_\_\_\_ has  
been issued and was mailed to the reviewed firm on  
\_\_\_\_\_.

☐

The findings did not warrant the issuance of a  
letter of comments.

\_\_\_\_\_  
Reviewer's Signature

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM  
Reviewer's Engagement Checklist

Engagement Code No. \_\_\_\_\_ Reviewer \_\_\_\_\_ Date \_\_\_\_\_

	N/A*	YES	NO	REF.**
<b>A. <u>Accountants' Report</u></b>				
1. Does the report adequately disclose all required matters and does its language conform to that suggested in professional standards?				
2. Is the report dated in conformity with the requirements of professional standards?				
3. Does each page of financial statements that have been compiled or reviewed include a reference to the accountants' report?				
4. If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards?				
5. If supplementary information accompanied the basic financial statements, does the accountant describe in his report the degree of responsibility, if any, he is taking?				
6. If required by the circumstances, does the accountants' report depart from the standard report?				
<b>B. <u>Financial Statements and Footnotes</u></b>				
<u>General</u>				
1. Are the financial statements suitably titled and appropriately referenced to the footnotes?				

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers must be explained on the pages provided at the end of this checklist.



	N/A	YES	NO	REF.
2. Is the presentation appropriate and disclosure adequate regarding:				
a) Significant accounting policies?				
b) Accounting changes?				
c) Comparative financial statements?				
d) Business combinations?				
3. If consolidated financial statements are presented, have the requirements of professional standards been adhered to?				
4. Are required disclosures made concerning related party transactions?				
5. Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed?				
6. Are nonmonetary transactions accounted for and disclosed?				
7. With respect to contingencies and commitments—				
a) Are loss contingencies disclosed and/or accrued?				
b) Are commitments and other contingencies adequately disclosed?				
8. Are the financial statements, where appropriate, adjusted for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?				
9. Are pension plans adequately disclosed?				
10. If the entity is or has been a "development stage enterprise," are adequate disclosures made?				
11. Do the financial statements, where required, include appropriate presentations of:				
a) Segment information?				
b) Major customers?				
c) Foreign operations and export sales?				



	N/A	YES	NO	REF.
l) Pledged assets?				
m) Current liabilities?				
n) Short-term liabilities expected to be refinanced?				
o) Notes payable and other debt—				
(i) Maturities and rates?				
(ii) Conversion features?				
(iii) Other important terms and covenants?				
(iv) Effect of no interest rate or an inappropriate stated interest rate?				
(v) Current and long-term portions?				
(vi) Effect of troubled debt restructurings?				
(vii) Effect of early extinguishment of debt?				
(viii) Payables to officers, employees, and affiliated companies?				
(ix) Maturities and sinking fund requirements for the next five years?				
p) Capital and operating leases of lessees?				
q) Other liabilities and deferred credits, including deferred income taxes, employees' compensation for future absences, and special termination benefits to employees?				
r) Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?				
s) Stock option and stock purchase plans?				
t) Stock subscriptions receivable?				
u) Retained earnings, including appropriations thereof and restrictions on dividends?				
v) Changes in stockholders' equity?				
w) Redemption requirements on capital stock for the next five years?				

N/A YES NO REF.

- [illegible]

Statement of Changes in Financial Position

15. Is a statement of changes in financial position presented for each period for which an income statement is presented?
16. Does it disclose all important aspects of financing and investing activities?
17. Are net changes in each element of working capital disclosed?

Summary

18. Does it appear that disclosures in the financial statements are reasonably adequate?

N/A	YES	NO	REF.

#### IV. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

- 
- \* The nature of the disposition of comments may vary, such as:
- Note MFC number as a reference to the specific MFC form which should indicate the disposition of the matter.
  - Note "resolved" and the manner of resolution, where appropriate.
  - Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------

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NOTE: Attach additional sheets if required.

## REVIEWER'S CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS TO QUESTION 1. BE SPECIFIC.

1. Based on your reading of the financial statements and accountant's report for this engagement, together with the information and representations provided by the firm, did anything come to your attention that caused you to believe that:

a. The financial statements did not conform with generally accepted accounting principles (or, where applicable, a comprehensive basis of accounting other than GAAP) in all material respects?

YES \_\_\_\_ NO \_\_\_\_

b. The report issued by the firm did not conform with professional standards?

YES \_\_\_\_ NO \_\_\_\_

EXPLAIN BELOW THE REASONS FOR ANY "NO" ANSWERS TO QUESTIONS 2 AND 3.

2. Have you prepared a "Matter for Further Consideration" form for each item that, in your opinion, might affect the report on the report review or that should be communicated to the reviewed firm as a matter that may require corrective action?

YES \_\_\_\_ NO \_\_\_\_

3. Have you prepared as a result of your review of this engagement a list of suggestions for improvement that do not require corrective action?

YES \_\_\_\_ NO \_\_\_\_



AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM  
MATTER FOR FURTHER CONSIDERATION

(See Instructions For Use On Reverse)

Engagement

MFC No. \_\_\_\_\_

No. \_\_\_\_\_  
Checklist page \_\_\_\_\_  
Program step \_\_\_\_\_

---

REVIEWER'S DESCRIPTION OF MATTER

---

REVIEWED FIRM AGREES WITH THE REVIEWER'S DESCRIPTION? YES \_\_\_\_\_ NO \_\_\_\_\_  
REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER ETC.

---

REVIEWER'S ADDITIONAL COMMENTS

INCLUDED IN LETTER OF COMMENTS? YES \_\_\_\_\_ NO \_\_\_\_\_  
If "No," explain:

---

Signatures

Dates

Reviewer

Engagement Partner\*

\* Optional - See Instruction 3 on reverse.

### INSTRUCTIONS FOR USE OF MFC FORMS

1. The reviewer should prepare an MFC form to clearly and concisely document all significant matters that require additional information or explanation of facts from the reviewed firm.
2. Generally, the reviewer will discuss the matters on MFC forms with the reviewed firm by telephone. Consequently, the reviewer should carefully document the reviewed firm's explanations.
3. The reviewer may wish to obtain the engagement partner's signature on matters that will be the subject of a modified report.

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM

Checklist for AICPA Staff Review of  
a Firm's Compliance with Other  
Membership Requirements of  
the Section

---

<u>Firm</u>	<u>Period Ending</u>		
	<u>Findings</u>		
<u>Procedures</u>	<u>Yes</u>	<u>No</u>	<u>Comments</u>
1. Has the requirement as to hours of continuing professional education been met by all professional staff based upon copies of records submitted for the firm's three most recent educational years?	_____	_____	
2. Has the firm paid its dues to the Section for the current year?	_____	_____	
3. Has the firm filed its most recent annual report?	_____	_____	
4. Are a majority of the proprietors, partners, or shareholders of the firm CPAs?	_____	_____	
5. Are all of the proprietors, partners or shareholders that are eligible for AICPA membership members of the AICPA?	_____	_____	

Signature \_\_\_\_\_

Date \_\_\_\_\_

Exhibit A: Illustrative Report

[AICPA Letterhead]

July 15, 19\_\_

To the Partners  
Able, Baker & Co.

I have made a report review with respect to the accounting practice of Able, Baker & Co. for the year ended March 31, 19\_\_, in accordance with guidelines established by the peer review committee of the private companies practice section of the AICPA Division for CPA Firms. The membership requirements of the section make this type of review available to firms that perform no audits. Able, Baker & Co. has represented to the section that it performed no audits during the year ended March 31, 19\_\_.

A report review consists only of reading selected financial statements and the accountant's compilation or review report thereon for selected engagements, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with another comprehensive basis of accounting and whether the accountant's report appears to conform with the requirements of professional standards. A report review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and I express no opinion or any form of assurance on those quality control policies and procedures.

In connection with my report review, [with the exception of the matters described in the following paragraph(s),] nothing came to my attention that caused me to believe that the compilation and review reports issued by Able, Baker & Co. in the conduct of its accounting practice during the year ended March 31, 19\_\_, did not conform with the requirements of professional standards.

(Illustrative Modification Paragraph)

Able, Baker & Co. has advised me that all of its reports on compiled financial statements that omit substantially all of the disclosures required by generally accepted accounting principles indicate that the financial statements are "restricted to internal use only." AICPA Statement on Standards for Accounting and Review Services No. 1 (SSARS 1) makes no provision for such "restricted use" statements but does suggest language for the accountant's report that clearly indicates the reason for and implications of the omission.

(Illustrative Modification Paragraph)

Able, Baker & Co. has advised me that it is not independent with respect to one of the review engagements I selected. Paragraph 38 of Statement on Standards for Accounting and Review Services No. 1 (SSARS 1) precludes an accountant from issuing a review report on the financial statements of an entity with respect to which the accountant is not independent.

(Illustrative Modification Paragraph)

In the majority of the engagements selected, the disclosures of related party transactions and lease obligations required by generally accepted accounting principles were not included in the financial statements, nor were they disclosed in the accountant's reports.

AICPA Review Team No. \_\_\_\_\_

\_\_\_\_\_  
William Brown  
Reviewer

Exhibit B: Sample Letter of Comments

[AICPA Letterhead]

July 15, 19\_\_\_\_  
[Should correspond  
with date of report]

To the Partners  
Able, Baker & Co.

I have made a report review of the accounting practice of Able, Baker & Co. for the year ended March 31, 19\_\_\_\_, in accordance with the guidelines established by the peer review committee of the private companies practice section of the AICPA Division for CPA Firms, and have issued my report thereon dated July 15, 19\_\_\_\_. This letter should be read in conjunction with that report.

A report review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with another comprehensive basis of accounting and whether the accountant's report appears to conform with the requirements of professional standards. A report review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice. However, the following matters did come to my attention.

(Following would be a description of —

- Matters that resulted in a modified report.
- Other findings that, in the opinion of the reviewer, indicate the need for substantial improvement in the reviewed firm's quality control policies and procedures or in compliance therewith.)

The foregoing matters were considered in preparing my report dated July 15, 19\_\_\_\_, and this letter does not change that report.

AICPA Review Team No. \_\_\_\_\_

\_\_\_\_\_  
William Brown  
Reviewer

Exhibit C: Examples of Matters That Might Be Included  
in Letters of Comments

Matters That Resulted in a Modified Report

Findings: The firm has advised me that all of its reports on compiled financial statements that omit substantially all of the disclosures required by generally accepted accounting principles indicate that the financial statements are "restricted to internal use only." AICPA Statement on Standards for Accounting and Review Services No. 1 (SSARS 1) makes no provision for such "restricted use" statements but does suggest language for the accountant's report that clearly indicates the reason for and implications of the omission.

Recommendation: In the future, the firm should comply with the requirements of SSARS 1.

Matters That Did Not Result in a Modified Report

Findings: On one of the compilation engagements I reviewed, the accountant's report did not indicate that the compiled financial statements omitted substantially all of the disclosures required by generally accepted accounting principles.

Recommendation: I recommend that the firm review its report preparation procedures to determine whether this error is a result of a weakness in these procedures.

Findings: Certain disclosures had been omitted from several of the financial statements I reviewed. These omissions, however, did not appear to make the financial statements misleading.

Recommendation: Although not required by professional standards, I recommend that the firm's procedures require the completion of a disclosure checklist in conjunction with the preparation or preissuance review of financial statements.

Findings: On several of the engagements I reviewed, the accountant's reports covering the basic financial statements did not include a reference to accompanying information presented for supplementary analysis purposes.

Recommendation: The firm should consider whether its staff needs additional continuing professional education in the preparation of compilation and review reports. Further, the firm should consider whether the adoption of a report review checklist is warranted.





AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

SUPPLEMENTAL CHECKLIST FOR REVIEW OF BANK AUDIT ENGAGEMENTS

(SEE SEPARATE INSTRUCTIONS FOR USE OF THIS CHECKLIST)

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1211 Avenue of the Americas, New York, NY 10036-8775

Instructions for Use of the Supplemental Checklist  
for Review of Bank Audit Engagements

This supplemental checklist was developed for use by reviewers of bank audit engagements. It should be used in conjunction with the Checklist for Review of Audit Engagements (audit checklist) and other guidance materials issued to implement the peer review program of the AICPA Division for CPA Firms. The instructions to sections I and III of the audit checklist should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 212/575-6650.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the examination of financial statements of banks. All "No" answers must be thoroughly explained in Section VI of the audit checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to banks. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedure issues in order to sufficiently evaluate banking engagements. These additional materials include the AICPA Financial Reporting Practice Aid, Disclosure Checklist for Banks, or other similarly comprehensive disclosure materials, the AICPA Industry Audit Guide, Audits of Banks, and the AICPA Auditing Procedure Study, Auditing the Allowance for Credit Losses of Banks.

This is the first of a series of supplemental checklists which the Institute intends to develop to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Quality Review Division.



## Supplemental Checklist For Review Of Bank Audit Engagements

### CONTENTS

<u>SECTION</u>	<u>BE PAGE</u>
I. Report and Financial Statements <sup>(1)</sup> (Supplement to Section I of the <u>Checklist for Review of Audit Engagements</u> ) <sup>(2)</sup>	
Financial Statements and Footnotes . . . . .	BE-5
II. Working Paper Areas - Banks <sup>(3)</sup> (Supplement to Section III of the <u>Checklist for Review of Audit Engagements</u> ) <sup>(2)</sup>	
General . . . . .	BE-6
Director's Examinations . . . . .	BE-6
Trust Operations . . . . .	BE-6
Loans . . . . .	BE-7
Real Estate and other Assets . . . . .	BE-8

- 
- (1) Refer to--the AICPA Financial Reporting Practice Aid, Disclosure Checklists for Banks, or other similarly comprehensive materials, and the AICPA Industry Audit Guide, Audits of Banks (see instructions on BE-3).
- (2) Reviewers should refer to the instructions for the applicable section included in the Checklist for Review of Audit Engagements.
- (3) Refer to--the AICPA Industry Audit Guide, Audits of Banks and the AICPA Auditing Procedure Study, Auditing the Allowance for Credit Losses of Banks (see instructions on BE-3).



## I. Report and Financial Statements

### Financial Statements and Footnotes

#### Balance Sheet

Is the presentation appropriate and disclosure adequate regarding:

Loans?

Allowance for credit losses (shown as a deduction from loans and lease receivables; disclose the method of providing reserves and a reconciliation of the balance)?

Domestic and foreign deposits (separately shown and disclosing interest or non-interest-bearing portions, amounts and maturities of certificates of deposit of \$100,000 or greater, large concentrations and related parties)?

Federal fund purchases, securities sold under repurchase agreements and other short-term borrowings?

Exclusion of trust assets?

Material interest-bearing deposits in other banks (separately disclosed)?

Federal funds sold and securities purchased under resale agreements (presented at gross amounts)?

Trading assets and related futures contracts?

Mortgage loans and mortgage backed securities held for sale?

QUES.	N/A	YES	NO	REF.
B101				
B102				
B103				
B104				
B105				
B106				
B107				
B108				
B109				





## II. Working Paper Areas - Banks

☐

### General

Do the engagement planning and audit working papers consider apparent fraud and insider abuse and the results of inquiries, readings, excerpts or other evidence of an understanding of regulatory examinations, their findings and actions?

Did the engagement team consider the risks to the bank of possible violations of regulations such as the following:

Bank Secrecy Act?

Legal lending limit regulations and interest rates charged?

Affiliated party transaction regulations?

Current minimum capital ratio requirements?

☐

### Director's Examinations

Procedures may be limited in a director's examination; therefore, were the following considered:

Clearly setting forth in the engagement letter, in advance, the nature and extent of procedures?

State regulations and requirements in the determination of audit scope?

Compliance with the provisions of SAS No. 35, if the examination consisted of performing certain agreed-upon procedures?

☐

### Trust Operations

Were the audit procedures directed to uncover the existence of contingent liabilities arising from trust department operations and the bank's fiduciary responsibilities?

QUES.	N/A	YES	NO	REF.
B301				
B302				
B303				
B304				
B305				
B306				
B307				
B308				
B309				



## Loans

Did the loan evaluation consider or include:

The banks lending policies and procedures, including its control over loan file documentation and maintenance?

The qualifications of the bank loan officers?

The effectiveness of the bank's internal audit and loan review program?

The results of prior years examinations and industry statistics?

Loan loss experience and charge-off policy?

The relative degrees of risk inherent by type of loan; considering, for example, if loans are unsecured, associated with depressed areas or industries, highly concentrated and exposed to political, geographic or economic risks?

Participation purchased or sold?

Over drafts?

Related party transactions?

The extent to which loan renewals and extensions are used to maintain loans on a current basis?

Appraisals obtained on foreclosures, including the qualifications, independence and findings of the appraisers?

The use of watch lists, delinquency reports and other sources of potential problems including troubled debt restructurings and in-substance foreclosures?

Did the work include the review of individual loan files including borrowers financial statements, evidence of collateral and cash flow information?

QUES.	N/A	YES	NO	REF.
B310				
B311				
B312				
B313				
B314				
B315				
B316				
B317				
B318				
B319				
B320				
B321				
B322				

In the loan area has the audit team given adequate consideration to:

Testing executed notes, loan applications, financial statements of borrowers, chattels, other credit information and approvals?

Confirmation with bank customers?

Proper accounting recognition of unearned income, interest income, points, recognition of acquisition and other fees and requirements of FAS No. 91?

The relationship of the total interest income yield, calculated through the comparison of total interest income to average loan balance, to interest rates in effect for the period.

Was an appropriate evaluation of the adequacy of the allowance for loan losses and the selection of loans to be evaluated, documented and then performed?



#### Real Estate and Other Assets

If real estate or other assets acquired through foreclosure are significant to the client, were:

Carrying values at the time of foreclosure evaluated and properly classified in the financial statements?

Continuing carrying values assessed, including those for in-substance foreclosures?

Loans restructured by the client properly recorded under the principles of FAS No. 15?

In-substance foreclosures reviewed to determine that they were accounted for as troubled debt restructurings?

QUES.	N/A	YES	NO	REF.
B323				
B324				
B325				
B326				
B327				
B328				
B329				
B330				
B331				



AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

PRIVATE COMPANIES PRACTICE SECTION

GUIDELINES FOR REPORT REVIEW OF  
A FIRM'S ACCOUNTING PRACTICE

FOR FIRMS THAT ISSUE COMPILATION OR REVIEW  
REPORTS BUT PERFORM NO AUDITS

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American Institute of Certified Public Accountants, Inc.  
1211 Avenue of the Americas, New York, NY 10036-8775

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## INTRODUCTION

The executive committee of the Private Companies Practice Section has determined that, for the purpose of complying with the membership requirement of section IV.3(c) of the PCPS organizational document, firms that issue compilation or review reports but perform no audits may elect, instead of a peer review conducted in accordance with Standards for Performing and Reporting on Peer Reviews, a report review conducted in accordance with these guidelines. These guidelines have been established by the section's peer review committee to provide guidance to the reviewed firm and to the reviewers in connection with performing and reporting on such reviews.

### Timing of Report Reviews

Because of the time constraints imposed by the section's peer review program, firms electing a report review may not select a review year that ends later than March 31 and must have provided all requested information, including the financial statements selected for review and related information, by May 31 of the year in which the review takes place.

### Nature of Report Reviews

Compilation and review engagements differ substantially from audit engagements. A compilation of financial statements is limited to presenting in the form of financial statements information that is the representation of management, and the accountant does not express an opinion or any other form of



assurance on them. A review of financial statements consists principally of inquiries of company personnel and analytical procedures applied to financial data; it is substantially less in scope than an audit and the accountant undertakes only to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. In an audit, however, the auditor has an obligation to perform such procedures as he considers necessary in the circumstances to express his professional opinion on the financial statements taken as a whole.

Because of the nature and limitations of compilation and review engagements, peer reviewers, in reviewing such engagements, ordinarily place greater weight on whether the financial statements and the accountant's report appear to be in conformity with professional standards than on the documentation of compliance with the performance standards of Statements on Standards for Accounting and Review Services (SSARS). Indeed, SSARS 1 itself places little emphasis on the matters that should be described in the accountant's compilation or review working papers. Accordingly, the executive committee has determined that it is appropriate to institute report reviews for firms that issue compilation or review reports but perform no audits.

In general, a report review consists only of reading the financial statements of selected clients and the accountant's

compilation or review report thereon, together with certain information and representations provided by the reviewed firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles, or, if applicable, with another comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of standards established by the AICPA Accounting and Review Services Committee. A report review does not include inspection of the working papers prepared on the selected compilation and review engagements, tests of the firm's administrative files and records, or interviews with firm personnel. Accordingly, it does not provide the reviewer with a basis for expressing any form of assurance on the firm's quality control policies and procedures for its accounting practice. The reviewer's report does indicate, however, based on the report review, whether anything came to the reviewer's attention that caused him to believe that the compilation and review reports issued by the firm in the conduct of its accounting practice during the year under review did not conform with the requirements of professional standards.

#### Reporting on Report Reviews

Because the scope of a report review is specifically focused on selected engagements, and not on the quality control system, material departures from professional standards noted in the compiled or reviewed financial statements or accountant's reports would be described in the report on the review.

If the reviewer determines that modification of the standard report on a report review is not adequate in the circumstances because, in his opinion, the firm may have a significant, pervasive quality control problem, the reviewer will, after consultation with the committee's staff, terminate the review and will not issue a report. In those circumstances, the reviewer will discuss his findings and recommendations with the reviewed firm and will report the termination of the review to the peer review committee in writing. The reviewed firm will be expected to agree to make appropriate changes to its system of quality control, to agree to undergo a full-scope peer review by June 30 of the following year, and to confirm these agreements in writing to the committee. These communications will be retained in the firm's public file until completion of that full-scope review. The firm will, of course, be expected to take appropriate action with respect to engagements with significant deficiencies.<sup>1</sup>

#### Compliance with Other Membership Requirements

Firms that elect a report review must provide the staff of the AICPA Quality Review Division with certain evidential matter concerning the firm's compliance with other PCPS membership requirements.

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<sup>1</sup>See "Codification of Statements on Standards for Accounting and Review Services," sec. 100.42 (New York, AICPA, 1983).

## BASIC REQUIREMENTS FOR REPORT REVIEWS

### A. Conditions for a Report Review

1. In arranging the review, the firm must represent (a) that its accounting practice<sup>2</sup> consists solely of compilation and review engagements, (b) that it expects to have performed no audits during the year under review, and (c) that it will immediately notify the section if, prior to the date of the review, it is engaged to perform an audit.
2. The firm must agree to a review year that ends during the period from December 31 to March 31.
3. The firm must agree to provide the staff and the reviewer with all requested information by May 31 of the year in which the review takes place.
4. The firm must agree to respond promptly to questions raised by the reviewer or by the staff in the course of the review and to cooperate with the peer review committee in resolving any disagreements.
5. The firm must agree to undergo a full-scope, on-site peer review prior to June 30 of the year following the year in which the report review takes place if the reviewer concludes, after consultation with the committee's staff, that he is unable to issue a report on his report review.
6. The firm must agree that after the review commences it will not resign from the section to avoid any of these conditions and that its failure to comply with these conditions ordinarily will cause the peer review committee to decide to conduct a hearing for the purpose of determining whether to recommend sanctions against the firm.

### B. Appointment of Reviewers

1. Reviewers will be selected exclusively by the peer review committee, with the staff's assistance, from the data files of reviewers maintained in connection with the selection of committee-appointed review teams.
2. Reviewers will comply with the guidance in Standards for Performing and Reporting on Peer Reviews on confidentiality, independence, conflict of interest, competence, and due care.

### C. Information Required Before Review Begins

1. The firm is expected to provide the staff with written representations as to the matters covered in section (A) above, which will be included in an engagement letter prepared by the staff.

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<sup>2</sup>Accounting practice, as referred to in this document, encompasses all accounting, review and compilation services for which professional standards have been established. It does not include other accounting services performed either in connection with the compilation or review of financial statements or as a separate service.

2. The firm will be asked to provide a schedule of its compilation and review engagements that includes for each engagement the following information:
  - a) Name of client or client code.
  - b) Year-end.
  - c) Type of industry.
  - d) Initials of accountant with final responsibility for the engagement (for example, sole practitioner or engagement partner).
  - e) Initials of accountant in charge of field work (for example, manager, supervisor or senior accountant).
  - f) Total engagement hours for the year (an estimate may be used if necessary).
  - g) Frequency and nature of service—
    - (i) Frequency: Use 3 columns headed "annual," "quarterly," "monthly."
    - (ii) Nature: Use the following codes in the appropriate columns—
      - R - Review engagement.
      - C - Compilation engagement.
      - CO - Compilation engagement—substantially all required disclosures omitted
      - PF - Prescribed form engagement.
      - OS - Other services (for example, forecasts).
3. The firm will be asked to provide a list of professional staff showing name, position, length of service, and whether the individual is (a) a CPA and (b) a member of the AICPA.
4. The firm will be asked to provide the staff with the following additional information relative to its compliance with the section's membership requirements:
  - a) A copy or a broker's confirmation of the accountants' liability insurance currently in effect.
  - b) Photocopies of the continuing professional education records specified in section VI.B of the section's "Continuing Professional Education Requirements" for each professional for each of the educational years since joining the section, up to a maximum of the three most recent educational years.

#### D. Engagement Selection and Review

1. Using the information included in the schedule provided under C.2 above, the staff of the AICPA Quality Review Division will make a preliminary selection of engagements for review. Engagements selected for review should provide a reasonable cross-section of the firm's compilation and review practice, considering concentrations in specialized industries. As a general guideline, the selection would include:
  - a) From 10% to 15% of the number of year-end review engagements.
  - b) From 5% to 10% of the number of year-end, full-disclosure compilation engagements.
  - c) A small sample of interim financial statements.
2. For each of the engagements selected, the reviewed firm will provide the reviewer with the following:
  - a) A copy of the financial statements and accountant's report. (The client's name may be deleted.)
  - b) A completed "Engagement Questionnaire."

IT IS IMPORTANT THAT CAREFUL ATTENTION BE PAID TO COMPLETING THE ENGAGEMENT QUESTIONNAIRE. FAILURE TO COMPLETE ALL THE REQUESTED INFORMATION, ESPECIALLY ANY NEEDED COMMENTARY, WILL REQUIRE OTHERWISE UNNECESSARY ORAL OR WRITTEN COMMUNICATIONS AND MAY MAKE IT DIFFICULT OR IMPOSSIBLE FOR THE REVIEWER TO COMPLETE HIS WORK OFF-SITE.
3. The reviewer will perform and document his review using the forms provided herein. "Matter for Further Consideration" forms should be used to document all significant matters that require additional information or explanation of facts from the reviewed firm. The resolution of these matters will usually be made by telephone and the reviewer will, therefore, document the firm's response. However, the reviewer may wish to obtain a written representation from the firm as to matters that will be the subject of a paragraph modifying the reviewer's conclusion in the review report.



AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION

REPORT REVIEW PROGRAM

Checklist for Firms Undergoing a Report  
Review

The purpose of this checklist is to assist firms that elect to undergo a report review to comply with the membership requirements of the Private Companies Practice Section.

Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division (QRD) staff member who initially contacted you or to the Quality Review Division at (212) 575-6650.

PRIOR TO THE REVIEW

INITIAL

DATE

1. Advise the QRD staff of the firm's intention to undergo a report review and of the year-end selected. (This should be done by responding on a timely basis to a request the firm will receive from the staff, usually in December, for information on the scheduling of a required peer review.)
2. QRD staff will prepare an engagement letter setting forth the terms and conditions of the report review. Sign and return a copy of the engagement letter to the staff.
3. Submit to the QRD staff upon request and on a timely basis:
  - a. Summary of CPE participation of all professionals in the firm for the three most recent educational years of the firm or since its membership in the section, whichever is less.
  - b. Copies of broker's confirmation of liability insurance coverage or current insurance policies and endorsements thereto.
  - c. A schedule of the firm's accounting clients. (See item C.2 of the section, "Basic Requirements for a Report Review.")

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____



INITIAL      DATE

- d. A list of the firm's professional staff.  
(See item C.3 of the section, "Basic Requirements for a Report Review.")

\_\_\_\_\_

\_\_\_\_\_

4. For each engagement selected for review by the QRD staff, forward to the reviewer:

- a. A copy of the financial statements and accountant's report. (The client's name may be deleted.)

\_\_\_\_\_

\_\_\_\_\_

- b. A completed "Engagement Questionnaire."

\_\_\_\_\_

\_\_\_\_\_

DURING THE REVIEW

5. Respond to the reviewer's inquiries and requests for further information.

\_\_\_\_\_

\_\_\_\_\_

AFTER THE REVIEW

6. Upon receipt of the report and letter of comments, if any, prepare a response to the matters requiring action in the letter of comments. The response should describe the actions taken or planned with respect to such matters.

\_\_\_\_\_

\_\_\_\_\_

7. Within 30 days of the date the report and letter of comments are issued, submit to the PCPS Peer Review Committee at the AICPA, 1211 Avenue of the Americas, New York, NY 10036, a copy of the report, and if applicable, the letter of comments and the firm's response thereto. (Note: The report received by the firm is not official until it has been accepted by the Peer Review Committee. Therefore, it would not be prudent to have the report printed or published or to make any other reference to it in a public manner until that time.)

\_\_\_\_\_

\_\_\_\_\_

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM  
ENGAGEMENT QUESTIONNAIRE

(To Be Completed by Reviewed Firm)

FIRM NAME \_\_\_\_\_

General Data

Engagement Name or Code No. \_\_\_\_\_ (If client names have been deleted from the financial statements, code these sheets as Nos. 1, 2, etc. and mark the financial statements correspondingly.)

Period covered by financial statements _____	Total assets \$ _____
Date of report _____	Long-term debt \$ _____
Date report released _____	Equity \$ _____
	Net sales \$ _____
	Net income \$ _____

Major lines of business \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

	<u>Name</u>	<u>Hours on Engagement</u>	<u>Number of Years on Job</u>
Accountant with final responsibility for the engagement (for example, sole practitioner or engagement partner)	_____	_____	_____
Accountant in charge of field work (for example, manager, supervisor, or senior accountant)	_____	_____	_____
Other personnel (Number only)	_____	_____	_____

Nature of Entity

- ☐ Independent entity
- ☐ Consolidated or combined group
- ☐ Subsidiary, division or branch
- ☐ Other (explain) \_\_\_\_\_  
\_\_\_\_\_

Nature of Service:

- ☐ Review engagement
- ☐ Compilation engagement
- ☐ Compilation engagement -- Substantially  
all required disclosures omitted
- ☐ Other (explain) \_\_\_\_\_  
\_\_\_\_\_

Financial Statements included:

- ☐ Balance sheet
- ☐ Income statement
- ☐ Statement of changes in financial position
- ☐ Statement of cash flows
- ☐ Supplementary information (describe) \_\_\_\_\_  
\_\_\_\_\_
- ☐ Other (explain) \_\_\_\_\_  
\_\_\_\_\_

Accounting Basis for Financial Statements

- ☐ Generally accepted accounting principles
- ☐ Cash basis
- ☐ Income tax basis
- ☐ Other (explain) \_\_\_\_\_  
\_\_\_\_\_

- [illegible]

# Specific Engagement Questions

	Yes	No
18. Other valuation accounts.		
19. Income tax expense, benefits, temporary differences, investment tax credits and other information on the effect of income taxes.		
20. Notes receivable or payable or debt with no interest rate or an inappropriate stated interest rate.		
21. Troubled debt restructurings.		
22. Unusual or specialized accounting policies.		
23. Research and development costs.		
24. Computer software costs.		
25. Product financing arrangements.		
26. Foreign operations.		
27. Foreign currency transactions.		
28. Nonmonetary transactions.		
C. Were there any disagreements with the client on this engagement that, if not resolved to the firm's satisfaction, would have caused the firm to modify its report or to withdraw from the engagement?		
D. If the answer to any item under questions B and C above is "yes," provide sufficient information in the "commentary" section of this questionnaire to enable the reviewer to consider whether the item has been appropriately accounted for and/or disclosed.		

## Commentary on Engagement Questions

Question  
Number

Commentary

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM

Reviewer's Checklist for Report Reviews

This checklist should be used for report reviews conducted by committee-appointed reviewers in conjunction with other guidance material issued to implement the report review program of the Private Companies Practice Section of the AICPA Division for CPA Firms.

Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the Quality Review Division (QRD) staff member who initially contacted you or to the Quality Review Division at (212) 575-6650.

Initial	Date
<b>I. <u>Prior to the Review</u></b>	
1. Review background information furnished by the firm and obtain additional information, if needed.	
2. Obtain the financial statements, reports, and completed engagement questionnaires for the engagements selected by the staff. If certain engagements selected were excluded by the firm, determine the reasonableness of the explanation. Consider what other actions may be appropriate in the circumstances (such as selecting additional engagements) and whether there has been a limitation on the scope of the review.	
3. If the firm was previously reviewed, consider whether matters discussed in the letter of comments, if any, and the firm's response thereto require additional emphasis in the current review, and document your decision in the working papers.	
<b>II. <u>During the Review</u></b>	
NOTE: THE REVIEW OF SELECTED ENGAGEMENTS IS EXPECTED TO BE MADE WITHIN 15 DAYS OF THE DATE THE MATERIALS IN PART I ARE RECEIVED.	
1. Perform the required procedures utilizing the "Reviewer's Engagement Checklist" for report reviews. Make any oral inquiries deemed necessary to consider whether the financial statements and accountant's report appear to conform with the requirements of professional standards. (Requests for working papers should not be necessary if the reviewed firm has properly completed the engagement questionnaire and can respond to any needed oral inquiries.)	

2. Consult with QRD staff whenever any significant problems or unusual situations arise, including:
  - a. When a modified report is being considered.
  - b. When no letter of comments will be issued.
  - c. When the reviewer encounters a situation that might cause the firm to consider whether there is a need to take action to prevent future reliance on a previously issued report.
  - d. When the reviewer concludes that a report issued by the firm was not in conformity with professional standards.
3. Ascertain that all items considered to be significant are included on a "Matter for Further Consideration" (MFC) form.
4. Review all matters, including the reviewed firm's responses, summarized on MFC forms. Make sure the reviewed firm agrees with the facts or that its reasons for disagreement are explained. Document on each MFC form its disposition, including the reasons for inclusion in or excluding the letter of comments.
5. Notify QRD staff if there is a change in timing for completion of the review.

### III. At Completion of Review

1. Communicate findings to appropriate individuals in the firm. Remind the firm that--
  - a. The report and letter of comments, if any, are not final until accepted by the Peer Review Committee.
  - b. It is the reviewed firm's responsibility to send the report and, if applicable, the letter of comments and response thereto, to the AICPA Quality Review Division within 30 days of the date the report and letter of comments are issued.
2. Prepare appropriate report on results of the review on AICPA letterhead supplied by QRD staff.

Initial	Date



3. Prepare letter of comments on matters that may require action, if any, on AICPA letterhead.
4. Complete summary review memorandum questionnaire and place in working papers. (See attached Appendix A.)
5. Within 30 days of completion of the review, submit report and letter of comments, if any, to the reviewed firm.
6. Notify QRD staff that review has been completed and that report and letter of comments, if any, have been issued. (Use attached notification form - Appendix B.)
7. When completed and in condition for review, but within 30 days of completion of the review, send all working papers to the AICPA Quality Review Division.
8. Submit your bill to the AICPA Quality Review Division for payment. (Reviewers will be paid directly by the AICPA.) Make sure the bill includes the federal employer identification number for Form 1099 purposes.

Initial	Date

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM  
SUMMARY REVIEW MEMORANDUM

Reviewed Firm's Name \_\_\_\_\_

Reviewed Firm's Address \_\_\_\_\_

Peer Review Year-End \_\_\_\_\_

Parts A and B to be completed by QRD staff. Parts C and D to be completed by reviewer.

A. Description of Firm

1. Professional Staff Profile:

	<u>TOTAL</u>
Sole practitioner or partners	
Supervisory personnel (or equivalent)	
Other professionals	

2. Accounting Statistics:

	<u>INTERIM</u>	<u>YEAR-END</u>	<u>TOTAL</u>
	<u>No. of</u>	<u>No. of</u>	<u>No. of</u>
	<u>Hrs.</u> <u>Engs.</u>	<u>Hrs.</u> <u>Engs.</u>	<u>Hrs.</u> <u>Engs.</u>
Reviews			
Compilations-full disclosure			
Compilations-substantially all disclosures omitted			
Other accounting services			

3. Indicate extent of industry specializations, if any: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**B. Scope of Work to Be Reviewed**

**1. Engagements Selected:**

	<u>INTERIM</u>		<u>YEAR-END</u>		<u>TOTAL</u>	
	<u>Hrs.</u>	<u>No. of Engs.</u>	<u>Hrs.</u>	<u>No. of Engs.</u>	<u>Hrs.</u>	<u>No. of Engs.</u>
Reviews						
Compilations-full disclosure						
Compilations-substantially all disclosures omitted						
Other accounting services						
Percentage of practice to be reviewed						

2. Describe basis for selection of engagements: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**C. Reviewer's Representation on Scope**

1. Did you review all engagements selected by the staff? Yes \_\_\_\_\_ No \_\_\_\_\_  
If no, describe the omissions (including type and number of engagements and engagement hours), the reasons therefor, and indicate whether and how you were satisfied as to the scope of the review.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Did you find it necessary to increase the scope of the review? Yes \_\_\_\_\_ No \_\_\_\_\_  
If yes, describe the extent and reasons for the increase (including the type and number of engagements and engagement hours).

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**D. Overall Findings and Conclusions:**

1. Attach a copy of the report issued.
2. Was a letter of comments issued? Yes\_\_\_\_ No\_\_\_\_. If yes, attach a copy. If no, give reason why no letter of comments was issued.

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3. Describe the nature and extent of each matter discussed with senior management of the reviewed firm which was not deemed of sufficient significance to include in a letter of comments. (Reference may be made to appropriate MFC forms.)

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4. Did the review disclose any situations which led the reviewer to conclude that the reviewed firm should consider taking action to prevent future reliance on a previously issued report? Yes\_\_\_\_ No\_\_\_\_. If noted, describe such situations fully, indicate whether the firm did consider the matter, describe the actions the firm has taken or plans to take, and indicate whether you concur with that action.

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5. Did the reviewer conclude in any instances that the report issued by the firm was not in conformity with professional standards? Yes\_\_\_\_ No\_\_\_\_. If noted, describe such instances fully, indicate whether the firm agrees with you, describe the actions the firm has taken or plans to take, and indicate whether you concur with that action.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Reviewer's Signature \_\_\_\_\_

Date \_\_\_\_\_

ATTACHMENT

Cost Information

A. Budget to Actual Comparison:

	<u>Actual Hours</u>
Planning	_____
Engagement Review	_____
Report	_____
Letter of Comments	_____
Other (describe if significant)	_____
Total Hours	_____
Hours Per Engagement Letter	_____
Rate/Hour	_____
Total Amount	_____

B. Does actual time exceed the upper end of the estimated range by more than 15%? Yes\_\_\_\_ No\_\_\_\_. If yes, describe the reasons for the overrun, indicate that the matter has been discussed with the reviewed firm, and indicate whether the overrun is acceptable to the firm.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Reviewer's Signature \_\_\_\_\_

Date \_\_\_\_\_

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM  
Review Completion Notification Form

Date \_\_\_\_\_

To: Quality Review Division  
American Institute of CPAs  
1211 Avenue of the Americas  
New York, New York 10036

From: \_\_\_\_\_  
Reviewer

\_\_\_\_\_  
Review Number

The Private Companies Practice Section report review of \_\_\_\_\_  
\_\_\_\_\_ has been completed.

The review report dated \_\_\_\_\_ has been issued and was mailed to  
the reviewed firm on \_\_\_\_\_. The working papers will be shipped  
to the Institute on or about \_\_\_\_\_.

☐

A letter of comments dated \_\_\_\_\_ has  
been issued and was mailed to the reviewed firm  
\_\_\_\_\_.

☐

The findings did not warrant the issuance of a  
letter of comments.

\_\_\_\_\_  
Reviewer's Signature

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM  
Review Engagement Checklist

Engagement Code No. \_\_\_\_\_ Reviewer \_\_\_\_\_ Date \_\_\_\_\_

	N/A*	YES	NO	REF.**
A. <u>Accountants' Report</u>				
1. Is the report dated in conformity with the requirements of professional standards?				
2. Does the report adequately disclose all required matters and does its language conform to that suggested in professional standards?				
3. Does each page of financial statements that have been compiled or reviewed include a reference to the accountants' report?				
4. If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards?				
5. If supplementary information accompanied the basic financial statements, does the accountant describe in his report the degree of responsibility, if any, he is taking?				
6. If required by the circumstances, does the accountants' report depart from the standard report and include appropriate language describing the modification?				

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\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers must be explained on the pages provided at the end of this checklist.



	N/A	YES	NO	REF.
1. Is the information provided in the report sufficient to allow the reader to understand the scope and objectives of the study?				
2. Is the information provided in the report sufficient to allow the reader to understand the methods used in the study?				
3. Is the information provided in the report sufficient to allow the reader to understand the results of the study?				
4. Is the information provided in the report sufficient to allow the reader to understand the conclusions of the study?				
5. Is the information provided in the report sufficient to allow the reader to understand the limitations of the study?				
6. Is the information provided in the report sufficient to allow the reader to understand the strengths of the study?				
7. Is the information provided in the report sufficient to allow the reader to understand the weaknesses of the study?				
8. Is the information provided in the report sufficient to allow the reader to understand the overall quality of the study?				
9. Is the information provided in the report sufficient to allow the reader to understand the overall value of the study?				
10. Is the information provided in the report sufficient to allow the reader to understand the overall impact of the study?				

[illegible]

- [illegible]

	N/A	YES	NO	REF.
A reconciliation of the plan's funded status with the amounts reported in the employer's balance sheet?				
The discount rate and rate of compensation increase used to measure the projected benefit obligation and the long-term rate of return on plan assets?				
Other information concerning plan benefits, and amortization methods?				
10. Are all other pension plans adequately disclosed?				
11. Are postretirement health care and life insurance benefits properly disclosed?				
12. If the entity is or has been a "development stage enterprise," are adequate disclosures made?				
13. Do the financial statements, where required, include appropriate presentations of:				
a) Segment information?				
b) Major customers?				
c) Foreign operations and export sales?				
d) Futures contracts?				
<u>Balance Sheet</u>				
14. Is the presentation appropriate and disclose adequate regarding:				
a) Segregation of assets and liabilities into current and noncurrent classifications?				
b) Valuation allowances?				
c) Restricted cash, including compensating balances?				
d) Marketable equity securities?				
e) Other marketable securities?				
f) Receivables—				
(i) Unbilled receivables?				

	N/A	YES	NO	REF.
(ii) Loans and related origination fees?				
(iii) Effect of no interest rate or an inappropriate stated interest rate?				
(iv) Receivables related to troubled debt restructurings?				
(v) All other receivables?				
g) Inventory?				
h) Investments accounted for by the appropriate method, e.g., cost or equity (common stock of unconsolidated subsidiaries, corporate joint ventures, and certain other investees)?				
i) Property and equipment, including accounting for assets of discontinued operations, investment credit, and capitalized interest?				
j) Sales-type, direct financing, and operating leases of lessors?				
k) Other assets, including intangible assets, unamortized computer software costs, deferred tax assets, and deferred charges?				
l) Pledged assets?				
m) Current liabilities?				
n) Short-term liabilities expected to be refinanced?				
o) Notes payable and other debt—				
(i) Maturities and rates?				
(ii) Other terms and covenants?				
(iii) Effect of no interest rate or an inappropriate stated interest rate?				
(iv) Effect of troubled debt restructurings?				
(v) Effect of early extinguishment of debt?				
(vi) Maturities and sinking fund requirements for the next five years?				

	N/A	YES	NO	REF.
p) Capital and operating leases of lessees?				
q) Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, and special termination benefits to employees?				
r) Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?				
s) Stock option and stock purchase plans?				
t) Stock subscriptions receivable?				
u) Retained earnings, including appropriations thereof and restrictions on dividends?				
v) Changes in stockholders' equity?				
w) Redemption requirements on capital stock for the next five years?				
<u>Income Statement</u>				
15. Are the important components of the income statement separately disclosed?				
16. Is the presentation appropriate and disclosure adequate regarding:				
a) Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?				
b) Gains and losses, realized and unrealized, from marketable equity securities?				
c) Income and income taxes on investments in securities accounted for on the equity method?				
d) Research and development costs?				
e) Computer software costs				
f) Interest costs?				
g) Discount or premium on notes receivable or payable?				

	N/A	YES	NO	REF.
h) Depreciation?				
i) Pension costs?				
j) Compensatory stock issuance plan?				
k) Deferred compensation agreements?				
l) Sales transactions in which the buyer has a right to return the product?				
m) Product financing arrangements?				
n) Income taxes, computed under the early application of FASB No. 96, to include:				
(i) The types of temporary differences that cause significant portions of a deferred tax liability or asset?				
(ii) Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status?				
(iii) Reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pretax income or loss from continuing operations?				
(iv) Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes?				
(v) Other information concerning tax expense, benefits and the effect of income taxes?				
o) Income taxes, computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from the customary relationship between income and taxes?				
p) Discontinued operations?				
q) Extraordinary and unusual items?				

	N/A	YES	NO	REF.
<u>Statement of Changes in Financial Position</u>				
17. Is a statement of changes in financial position presented for each period for which an income statement is presented?				
18. Does it disclose all important aspects of financing and investing activities?				
19. Are net changes in each element of working capital disclosed?				
<u>Statement of Cash Flows</u>				
20. Is a statement of cash flows presented for each period for which results of operations are provided?(1)				
21. Does it report cash provided or used by investing, financing and operating activities?				
22. Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents?				
23. Does it provide a reconciliation between net income and net cash flow from operating activities?				
24. Are noncash investing and financing activities disclosed?				
<u>Other</u>				
25. If the industry in which the client is practicing is covered by an accounting and audit guide, are the suggested format, statements, and disclosures consistent with the guide?				
<u>Summary</u>				
26. Does it appear that disclosures in the financial statements are reasonably adequate?				

---

(1) FASB No. 95, paragraph 34, encourages, but does not require, restatement of comparative financial statements for earlier years. The reviewer should not answer this question "no" if the statement of changes in financial position is presented for comparative years, but should consider the appropriateness of the accountant's report in these circumstances.

#### IV. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

- 
- \* The nature of the disposition of comments may vary, such as:
- Note MFC number as a reference to the specific MFC form which should indicate the disposition of the matter.
  - Note "resolved" and the manner of resolution, where appropriate.
  - Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------

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NOTE: Attach additional sheets if required.



<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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NOTE: Attach additional sheets if required.

## REVIEWER'S CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS TO QUESTION 1. BE SPECIFIC.

1. Based on your reading of the financial statements and accountant's report for this engagement, together with the information and representations provided by the firm, did anything come to your attention that caused you to believe that:

a. The financial statements did not conform with generally accepted accounting principles (or, where applicable, a comprehensive basis of accounting other than GAAP) in all material respects?

YES \_\_\_\_\_ NO \_\_\_\_\_

b. The report issued by the firm did not conform with professional standards?

YES \_\_\_\_\_ NO \_\_\_\_\_

EXPLAIN BELOW THE REASONS FOR ANY "NO" ANSWERS TO QUESTIONS 2 AND 3.

2. Have you prepared a "Matter for Further Consideration" form for each item that, in your opinion, might affect the report on the report review or that should be communicated to the reviewed firm as a matter that may require corrective action?

YES \_\_\_\_\_ NO \_\_\_\_\_

3. Have you prepared as a result of your review of this engagement a list of suggestions for improvement that do not require corrective action?

YES \_\_\_\_\_ NO \_\_\_\_\_

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM  
MATTER FOR FURTHER CONSIDERATION

(See Instructions For Use On Reverse)

Engagement

MFC No. \_\_\_\_\_

No. \_\_\_\_\_  
Checklist page \_\_\_\_\_  
Program step \_\_\_\_\_

---

REVIEWER'S DESCRIPTION OF MATTER

---

REVIEWED FIRM AGREES WITH THE REVIEWER'S DESCRIPTION? YES \_\_\_\_\_ NO \_\_\_\_\_  
REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER ETC.

---

REVIEWER'S ADDITIONAL COMMENTS

INCLUDED IN LETTER OF COMMENTS? YES \_\_\_\_\_ NO \_\_\_\_\_  
If "No," explain:

---

Signatures

Dates

Reviewer

\_\_\_\_\_

\_\_\_\_\_

Engagement Partner\*

\_\_\_\_\_

\_\_\_\_\_

\* Optional - See Instruction 3 on reverse.

### INSTRUCTIONS FOR USE OF MFC FORMS

1. The reviewer should prepare an MFC form to clearly and concisely document all significant matters that require additional information or explanation of facts from the reviewed firm.
2. Generally, the reviewer will discuss the matters on MFC forms with the reviewed firm by telephone. Consequently, the reviewer should carefully document the reviewed firm's explanations.
3. The reviewer may wish to obtain the engagement partner's signature on matters that will be the subject of a modified report.

AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION  
REPORT REVIEW PROGRAM

Checklist for AICPA Staff Review of  
a Firm's Compliance with Other  
Membership Requirements of  
the Section

---

<u>Firm</u>	<u>Period Ending</u>		
	<u>Findings</u>		
<u>Procedures</u>	<u>Yes</u>	<u>No</u>	<u>Comments</u>
1. Has the requirement as to hours of continuing professional education been met by all professional staff based upon copies of records submitted for the firm's three most recent educational years?	_____	_____	
2. Has the firm paid its dues to the Section for the current year?	_____	_____	
3. Has the firm filed its most recent annual report?	_____	_____	
4. Are a majority of the proprietors, partners, or shareholders of the firm CPAs?	_____	_____	
5. Are all of the proprietors, partners or shareholders that are eligible for AICPA membership members of the AICPA?	_____	_____	

Signature \_\_\_\_\_

Date \_\_\_\_\_

Exhibit A: Illustrative Report

[AICPA Letterhead]

July 15, 19\_\_

To the Partners  
Able, Baker & Co.

I have made a report review with respect to the accounting practice of Able, Baker & Co. for the year ended March 31, 19\_\_, in accordance with guidelines established by the peer review committee of the private companies practice section of the AICPA Division for CPA Firms. The membership requirements of the section make this type of review available to firms that perform no audits. Able, Baker & Co. has represented to the section that it performed no audits during the year ended March 31, 19\_\_.

A report review consists only of reading selected financial statements and the accountant's compilation or review report thereon for selected engagements, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with another comprehensive basis of accounting and whether the accountant's report appears to conform with the requirements of professional standards. A report review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and I express no opinion or any form of assurance on those quality control policies and procedures.

In connection with my report review, [with the exception of the matters described in the following paragraph(s),] nothing came to my attention that caused me to believe that the compilation and review reports issued by Able, Baker & Co. in the conduct of its accounting practice during the year ended March 31, 19\_\_, did not conform with the requirements of professional standards.

(Illustrative Modification Paragraph)

Able, Baker & Co. has advised me that all of its reports on compiled financial statements that omit substantially all of the disclosures required by generally accepted accounting principles indicate that the financial statements are "restricted to internal use only." AICPA Statement on Standards for Accounting and Review Services No. 1 (SSARS 1) makes no provision for such "restricted use" statements but does suggest language for the accountant's report that clearly indicates the reason for and implications of the omission.

(Illustrative Modification Paragraph)

Able, Baker & Co. has advised me that it is not independent with respect to one of the review engagements I selected. Paragraph 38 of Statement on Standards for Accounting and Review Services No. 1 (SSARS 1) precludes an accountant from issuing a review report on the financial statements of an entity with respect to which the accountant is not independent.

(Illustrative Modification Paragraph)

In the majority of the engagements selected, the disclosures of related party transactions and lease obligations required by generally accepted accounting principles were not included in the financial statements, nor were they disclosed in the accountant's reports.

AICPA Review Team No. \_\_\_\_\_

\_\_\_\_\_  
William Brown  
Reviewer

Exhibit B: Sample Letter of Comments

[AICPA Letterhead]

July 15, 19\_\_\_\_  
[Should correspond  
with date of report]

To the Partners  
Able, Baker & Co.

I have made a report review of the accounting practice of Able, Baker & Co. for the year ended March 31, 19\_\_\_\_, in accordance with the guidelines established by the peer review committee of the private companies practice section of the AICPA Division for CPA Firms, and have issued my report thereon dated July 15, 19\_\_\_\_. This letter should be read in conjunction with that report.

A report review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with another comprehensive basis of accounting and whether the accountant's report appears to conform with the requirements of professional standards. A report review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice. However, the following matters did come to my attention.

(Following would be a description of —

- Matters that resulted in a modified report.
- Other findings that, in the opinion of the reviewer, indicate the need for substantial improvement in the reviewed firm's quality control policies and procedures or in compliance therewith.)

The foregoing matters were considered in preparing my report dated July 15, 19\_\_\_\_, and this letter does not change that report.

AICPA Review Team No. \_\_\_\_\_

\_\_\_\_\_  
William Brown  
Reviewer



Exhibit C: Examples of Matters That Might Be Included  
in Letters of Comments

Matters That Resulted in a Modified Report

- Findings: The firm has advised me that all of its reports on compiled financial statements that omit substantially all of the disclosures required by generally accepted accounting principles indicate that the financial statements are "restricted to internal use only." AICPA Statement on Standards for Accounting and Review Services No. 1 (SSARS 1) makes no provision for such "restricted use" statements but does suggest language for the accountant's report that clearly indicates the reason for and implications of the omission.
- Recommendation: In the future, the firm should comply with the requirements of SSARS 1.

Matters That Did Not Result in a Modified Report

- Findings: On one of the compilation engagements I reviewed, the accountant's report did not indicate that the compiled financial statements omitted substantially all of the disclosures required by generally accepted accounting principles.
- Recommendation: I recommend that the firm review its report preparation procedures to determine whether this error is a result of a weakness in these procedures.
- Findings: Certain disclosures had been omitted from several of the financial statements I reviewed. These omissions, however, did not appear to make the financial statements misleading.
- Recommendation: Although not required by professional standards, I recommend that the firm's procedures require the completion of a disclosure checklist in conjunction with the preparation or preissuance review of financial statements.
- Findings: On several of the engagements I reviewed, the accountant's reports covering the basic financial statements did not include a reference to accompanying information presented for supplementary analysis purposes.
- Recommendation: The firm should consider whether its staff needs additional continuing professional education in the preparation of compilation and review reports. Further, the firm should consider whether the adoption of a report review checklist is warranted.



**STANDARDS FOR PERFORMING AND  
REPORTING ON REVIEWS OF  
QUALITY CONTROL MATERIALS**

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# STANDARDS FOR PERFORMING AND REPORTING ON REVIEWS OF QUALITY CONTROL MATERIALS

## INTRODUCTION

Quality control materials (QCM) are materials that are suitable for adoption by a firm as an integral part of that firm's quality control system.<sup>1</sup> Such materials provide guidance in conforming with professional standards and may include, but are not limited to, such items as --

- Engagement aids, including accounting and auditing manuals, checklists, questionnaires, work programs, computer-aided accounting and auditing tools, and similar materials intended for use by accounting and auditing engagement teams; and
- Personnel manuals, inspection checklists, hiring forms, and client acceptance and continuance forms.

Occasionally, organizations (hereinafter referred to as "providers") may sell or otherwise distribute quality control materials that they have developed to CPA firms (hereinafter referred to as "user firms").

Providers may elect voluntarily or be required (see Applicability) to undergo an independent review of their system of quality control for the development and maintenance of the quality control materials they have developed and of the materials themselves.<sup>2</sup> The reasons for undergoing such a review are:

- To provide assurance to user firms that the quality control materials they have acquired are reliable aids to assist them in conforming with the professional standards the materials purport to encompass;
- To provide more cost-effective peer reviews for firms that have acquired such materials; and
- To assure that independence and objectivity on peer reviews of user firms are maintained when such reviews are performed by providers.

---

<sup>1</sup> Continuing professional education programs are not included in the definition of quality control materials for purposes of this section. Reviews of continuing professional education programs that an organization may develop and sell or otherwise distribute to CPA firms are described briefly in Update 6-E included in the "Other Matters" section of the loose-leaf PCPS Peer Review Manual.

<sup>2</sup> See Appendix A to this section for a discussion of the elements that a provider's system for the development and maintenance of quality control materials should include.

## OBJECTIVES OF A REVIEW OF QUALITY CONTROL MATERIALS

The objectives of a review of quality control materials developed by a provider are --

1. To determine whether the provider's system for the development and maintenance of the quality control materials was suitably designed and was being complied with during the period under review to provide user firms with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass; and
2. To determine whether the resultant materials are reliable aids.

## APPLICABILITY

An independent review of the system for the development and maintenance of quality control materials and the resultant materials (hereinafter referred to as the "QCM review") is required for the following classes of providers --

1. A member firm providing quality control materials to another member firm for which the provider firm will perform the peer review; and
2. An association providing quality control materials that meet the definition of association quality control materials<sup>3</sup> to its member firms when the peer reviews of those firms are to be administered by the association.

A provider of quality control materials falling into either of these categories should submit to a QCM review once every three years. In the event of substantial change in the system for the development and maintenance of the materials or in the resultant materials, the provider should consult with the Private Companies Practice Section Peer Review Committee (hereinafter referred to as "the Committee") to determine whether an accelerated review is warranted.

Any other provider of quality control materials that voluntarily undergoes a QCM review will also be subject to the standards in this section. A provider may undergo a review voluntarily so that peer reviewers of user firms can place reliance on the QCM review rather than having to review the quality control materials in detail.

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<sup>3</sup> See Appendix A - "Interpretation: Association Quality Control Materials" of Section 3 of the PCPS Peer Review Manual (1986 edition).

All providers of quality control materials that undergo a QCM review must notify the Committee in advance of that review in order to permit oversight by the Committee. Providers must also notify the Committee should the QCM review be discontinued.

## **STANDARDS FOR PERFORMING QCM REVIEWS**

### **Qualifications for Serving as QCM Reviewers**

A QCM review may be performed by a committee-appointed review team, by a firm that is a member of the section, or by an association or state society appointed review team. Reviews of association quality control materials may not be performed by a member of the association. Furthermore, the Committee will not appoint to the QCM review team a person with a firm that is a member of the association or a person or firm that may have a conflict of interest with respect to the QCM review, such as someone who assisted in the development or review of such materials or uses the materials as an integral part of the firm's quality control system.

A QCM reviewer shall possess the same qualifications set forth in the sections entitled "Organization of the Review Team" and "Qualifications for Service as a Reviewer" in Section 2 of the PCPS Peer Review Manual (1986 edition). A member firm serving as a QCM reviewer must adhere to the guidelines included in "Qualifications for Service as a Reviewing Firm" in Section 2. In addition, associations and state societies requested to perform QCM reviews must adhere to the guidelines contained in Sections 3 and 4, "Guidelines for Involvement by Associations of CPA Firms" and "Guidelines for Involvement by State Societies," respectively, of that manual.

### **Procedures for Performing QCM Reviews**

The provider should identify the materials to be reviewed and on which an opinion is to be expressed. A QCM review should include a study and evaluation of the system for the development and maintenance of the quality control materials that have been identified and a review of the materials themselves.

A study and evaluation of the system for the development and maintenance of quality control materials should normally include the following procedures:

1. Reviewing and evaluating the procedures established for developing quality control materials.
2. Reviewing and evaluating the procedures established for updating (including distributing) the quality control materials to assure that the materials remain current and relevant when the provider has undertaken the responsibility for updating the materials.

3. Reviewing the technical competence of the developer(s)/updater(s) of the quality control materials.
4. Obtaining evidence that the quality control materials were reviewed for technical accuracy by qualified person(s) other than the developer(s)/updater(s).
5. Determining whether the provider has appropriately communicated its policy regarding the period covered by the materials, the professional standards the materials purport to encompass, and the provider's intention to update the materials.
6. Reviewing the system developed for soliciting and evaluating feedback from users of the quality control materials.

A QCM review team should review the resultant quality control materials, to the extent deemed necessary, to evaluate whether the materials are reliable aids in conforming with those professional standards the materials purport to encompass.

#### **STANDARDS FOR REPORTING ON QCM REVIEWS**

##### **The Review Team's Report**

Within thirty days of the date of the exit conference<sup>4</sup>, the QCM review team should furnish the provider with a written report and, if applicable, a letter of comments.

##### **Unqualified Report**

An unqualified report issued by a QCM review team shall contain the following --

- A statement of the scope of the review;
- An identification of the quality control materials reviewed;
- A statement that the review was conducted in accordance with standards promulgated by the Peer Review Committee of the section;
- A description of the general characteristics of a system of quality control;

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<sup>4</sup> A QCM review team should communicate its findings to the provider organization at an exit conference. For guidance on preparing for and holding an exit conference, see the section entitled "Completion of the Review" on page 2-22 of the PCPS Peer Review Manual (1986 edition).



- A disclaimer regarding the application of the materials by user firms;
- An opinion (without modification) that the system of quality control for the development and maintenance of the quality control materials was suitably designed and was being complied with during the period under review to provide user firms with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass.
- An opinion (without modification) that the identified quality control materials are reliable aids.

An example of an unqualified report is included in Exhibit 1 in this section.

### **Modified Report**

The following circumstances ordinarily would require a modified report (qualified, adverse, or disclaimed):

- The scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary;
- The provider's system of quality control for the development and maintenance of quality control materials, as designed, did not provide user firms with reasonable assurance that reliable aids had been developed to assist them in conforming with those professional standards the materials purport to encompass;
- The degree of compliance with the provider's system of quality control for the development and maintenance of quality control materials was not sufficient to provide user firms with reasonable assurance that reliable aids had been developed to assist them in conforming with those professional standards the materials purport to encompass;
- The resultant quality control materials are not reliable aids to assist user firms in conforming with those professional standards the materials purport to encompass.

In those instances in which the QCM review team determines that a modified report is required, all the reasons should be disclosed and the QCM review team should consult with the Committee prior to the issuance of the report.

## Letter of Comments

A letter of comments issued by a QCM review team should include the following --

- A reference to the report and, if applicable, an indication that the report was modified;
- A description of the purpose of the QCM review;
- A statement that the review was conducted in accordance with standards promulgated by the Peer Review Committee of the section;
- A description of the limitations of a system for the development and maintenance of quality control materials and of the materials themselves;
- The reviewer's findings, including sufficient detail with respect to the quality control materials so that user firms can determine the actions they need to take, if any, to overcome the effects of the deficiencies noted.
- A statement that the matters discussed in the letter were considered in determining the opinion on the system for the development and maintenance of the quality control materials and the resultant materials.

If any of the matters to be included in the letter were included in the letter issued in connection with the provider's previous QCM review, that fact ordinarily should be noted in the description of the matter. In addition, although not required, the QCM review team may indicate how corrective action might be implemented. The letter may also include comments concerning actions taken, in process, or to be taken by the provider.

The letter of comments should include appropriate comments regarding the design of the provider's system of quality control for the development and maintenance of the quality control materials, or its compliance with that system, or deficiencies noted in the resultant quality control materials.<sup>5</sup>

Exhibit 2 illustrates how some of the foregoing matters may be covered in a letter of comments.

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<sup>5</sup> For guidance on evaluating whether a matter should be included in a letter of comments, see pages 2-29 through 2-31 of the PCPS Peer Review Manual.

If a modified report is issued, the letter must include a separate section on the matters that resulted in the modification. This section would include an elaboration of the findings discussed in the modifying paragraph of the report.

### **Letter of Response**

The provider is required to respond in writing to the letter of comments. The response should be addressed to the Committee and should describe the action(s) taken or planned with respect to each matter in the letter. If the provider disagrees with one or more of the comments, its response should describe the reasons for such disagreement. In the event that a material error or omission in the quality control materials is uncovered by the QCM review team, the response should also describe the provider's plan for notifying known users of that error or omission.

## Exhibit 1--Sample Unqualified Report

The following is an example of an unqualified report on a QCM review --

[Firm, Association or AICPA Letterhead]

April 15, 19\_\_

Executive Board  
XYZ Organization

We have reviewed the system of quality control for the development and maintenance of (identify each item covered by the opinion or refer to an attached listing) ("materials") of XYZ Organization (the organization) in effect for the year ended December 31, 19\_\_, and the resultant materials in effect at December 31, 19\_\_ in order to determine whether the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass. [The organization has not undertaken the responsibility for maintaining the currency and relevancy of the quality control materials.]\* Our review was conducted in accordance with the standards for reviews of quality control materials promulgated by the Peer Review Committee of the Private Companies Practice Section of the AICPA Division for CPA Firms.

In performing our review, we have given consideration to the following general characteristics of a system of quality control. An organization's system for the development and maintenance of quality control materials encompasses its organizational structure and the policies and procedures established to provide the users of its materials with reasonable assurance that the quality control materials are reliable aids to assist them in conforming with professional standards in conducting their accounting and auditing practices. The extent of an organization's quality control policies and procedures for the development and maintenance of quality control materials and the manner in which they are implemented will depend upon a variety of factors, such as the size and organizational structure of the organization and the nature of the materials provided to users. Variance in individual performance and professional interpretation affects the degree of compliance with prescribed quality control policies and procedures. Therefore, adherence to all policies and procedures in every case may not be possible.

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\* To be included if the provider has not undertaken the responsibility for maintaining the currency and relevancy of the quality control materials. In this circumstance, all references to "maintenance" of the quality control materials should be deleted from the report and letter of comments.

Our review and tests were limited to the system of quality control for the development and maintenance of the aforementioned materials of the XYZ Organization and to the materials themselves and did not extend to the application of these materials by users of the materials nor to the policies and procedures of individual users.

In our opinion, the system of quality control for the development and maintenance of the quality control materials of the XYZ Organization was suitably designed and was being complied with during the year ended December 31, 19\_\_, to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass. Also, in our opinion, the quality control materials referred to above are reliable aids at December 31, 19\_\_.

AICPA Review Team No. \_\_\_\_\_

\_\_\_\_\_  
William Brown  
Team Captain

or

Johnson & Co. [for review by  
a firm]

or

\_\_\_\_\_  
John Doe  
Team Captain

[for review by an  
association or  
state society  
sponsored review  
team]

## Exhibit 2--Sample Letter of Comments

The following is an example of a letter of comments issued in conjunction with a report on a QCM review --

[Firm, Association or AICPA Letterhead]

April 15, 19\_\_

[Should correspond with date of report]

Executive Board  
XYZ Organization

We have reviewed the system of quality control for the development and maintenance\* of (identify each item covered by the opinion or refer to an attached listing) ("materials") of XYZ Organization (the organization) in effect for the year ended December 31, 19\_\_, and the resultant materials in effect at December 31, 19\_\_ and have issued our report thereon dated April 15, 19\_\_. This letter should be read in conjunction with that report.

Our review was for the purpose of reporting upon your system of quality control for the development and maintenance of quality control materials and your compliance with that system, and upon whether the materials are reliable aids in assisting users in conforming with those professional standards the materials purport to encompass. Our review was conducted in accordance with the standards for reviews of quality control materials promulgated by the Peer Review Committee of the Private Companies Practice Section of the AICPA Division for CPA Firms; however, our review would not necessarily disclose all weaknesses in the system or lack of compliance with it or all deficiencies in the quality control materials.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control for the development and maintenance of quality control materials. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control for the development and maintenance of quality control materials or of the materials themselves to future periods is subject to the risk that the system or the materials may become inadequate because of changes in conditions or that the degree of compliance with the system may deteriorate or that the materials may become outdated.

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\* If the provider has not undertaken the responsibility for maintaining the currency and relevancy of the quality control materials, all references to "maintenance" of the quality control materials should be deleted from the letter of comments.

## **DESIGN OF THE QUALITY CONTROL SYSTEM**

**Finding** -- The organization's policies and procedures for the development and maintenance of quality control materials state that feedback on the materials is obtained by means of a questionnaire provided with the materials. The organization's policies and procedures do not specify the procedures to be followed for reviewing and analyzing returned questionnaires. As a result, our review of the questionnaires received by the organization during the review period indicated that the questionnaires were being read, but that they were not being summarized or analyzed to determine whether the quality control materials require change.

**Recommendation for improvement** -- The organization should revise its policies and procedures for the development and maintenance of quality control materials to include procedures for reviewing, summarizing, and analyzing the feedback received on its quality control materials in order to determine whether the materials require change(s) to provide reasonable assurance that the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass.

## **NONCOMPLIANCE WITH THE QUALITY CONTROL SYSTEM**

**Finding** -- The organization's policies and procedures require that a technical review of all quality control materials be performed by a qualified person other than the developer to ensure that the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass. During our review, we noted that such a technical review was performed on all of the materials we reviewed except for the current edition of the financial statement disclosure and reporting checklist. However, we were satisfied that the checklist is a reliable aid.

**Recommendation for improvement**--The organization should remind its personnel of the importance of complying with its technical review policy. In addition, the organization may wish to implement other controls to ensure compliance with this policy.

## **DEFICIENCY IN THE QUALITY CONTROL MATERIALS**

**Finding** -- In our review of the organization's accounting and auditing manual, we noted that there was no guidance for the avoidance of unwarranted reliance on computer-generated reports. Furthermore, in our review of the organization's quality control policies and procedures manual, we noted that the manual states that the completion of the organization's Environmental Information Form will provide sufficient documentation to enable a user to obtain an understanding of the flow of transactions through the computerized portion of an accounting system. As presently designed, the Environmental Information Form, when

completed, ordinarily will not, by itself, provide sufficient documentation.

**Recommendation for improvement** -- The organization, in its next revision of its manuals, should provide guidance for the avoidance of unwarranted reliance on computer-generated reports and modify the Environmental Information Form or develop other aids so that, when properly completed, it/they will provide sufficient information about the computerized portion of an accounting system to enable a user to obtain an understanding of the flow of transactions through it.

The foregoing matters were considered in determining our opinion set forth in our report dated April 15, 19\_\_, and this letter does not change that report.

AICPA Review Team No. \_\_\_\_\_

\_\_\_\_\_  
William Brown  
Team Captain

or

Johnson & Co.                      [for review by  
a firm]

or

\_\_\_\_\_  
John Doe  
Team Captain

[for review by  
an association-  
or state society  
sponsored review  
team]



## **Appendix A--Elements of a Provider's System for the Development and Maintenance of Quality Control Materials**

A provider's system for the development and maintenance of quality control materials normally should include --

- A requirement that the quality control materials be developed by individuals qualified in the subject matter;
- A requirement that the quality control materials be reviewed for technical accuracy by qualified person(s) other than the developer(s) to ensure that the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass;
- Procedures to ensure the currency and relevancy of the quality control materials;
- Procedures for soliciting and evaluating feedback from users of the quality control materials;
- Procedures for communicating the period and, where appropriate, the professional standards encompassed by the materials, and the provider's policy, if any, regarding the issuance of updates to the materials and, if a policy exists, the method of updating;
- Procedures for ensuring that the materials are updated in accordance with the provider's policy when it has undertaken to update them.

## **Appendix B--Guidance For Firms Using Acquired Quality Control Materials**

### **Introduction**

A firm's quality control materials are those materials that have been adopted as an integral part of the firm's quality control system. Such materials provide guidance in conforming with professional standards and may include, but are not limited to, such items as --

- Engagement aids, including accounting and auditing manuals, checklists, questionnaires, work programs, computer-aided accounting and auditing tools, and similar materials intended for use by accounting and auditing engagement teams; and
- Personnel manuals, inspection checklists, hiring forms, and client acceptance and continuance forms.

Some firms ("user firms") acquire these materials from another accounting firm or some other third party and require their personnel to use the materials during the performance of accounting and auditing engagements or elsewhere in its system of quality control. The following guidance has been developed to assist firms in discharging their responsibilities when they acquire quality control materials from others.

### **Guidance For User Firms**

Users of acquired quality control materials are obligated to evaluate whether the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass. If the materials have been subjected to an independent review ("QCM review"), a user firm should obtain and review the report and, if applicable, letter of comments and response thereto from the provider and determine whether the firm should establish compensating policies and procedures as a result of any deficiencies identified in the report or letter of comments. If the materials have not been subjected to an independent QCM review, the user firm must evaluate whether the materials are reliable aids to assist it in conforming with those professional standards the materials purport to encompass.

Regardless of whether the acquired quality control materials have been subjected to an independent QCM review, the user firm is responsible for tailoring the materials, to the extent appropriate, to provide it with reliable aids to assist its professional personnel in conforming with those professional standards the materials purport to encompass and for integrating

those materials into its practice.\* A user firm should establish a plan for doing these. Such a plan would ordinarily include --

- a) identifying the materials that personnel must use during the performance of accounting and auditing engagements,
- b) tailoring the materials to the firm's practice,\*\*
- c) communicating the firm's policies and procedures for using the materials to the professional personnel, and
- d) training the professional personnel in the use of the materials.

It is the user firm's responsibility to ensure that its quality control materials remain current and relevant if the provider has not undertaken the responsibility for updating the materials. Where the provider has undertaken such a responsibility, the user firm should monitor that updates are received on a timely basis and are in accordance with those professional standards the updates purport to encompass. In the event that a provider does not undertake the responsibility for updating quality control materials or if a user has not received timely updates, the user firm should establish appropriate quality control policies and procedures to provide it with reasonable assurance of conforming with those recently issued professional standards that the provider's quality control materials do not encompass.

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\* Where a firm has acquired quality control materials that have been subjected to a QCM review, the peer reviewer may rely on the results of the QCM review. However, the reviewer must still evaluate whether the firm has appropriately tailored the materials and integrated them into its practice.

\*\* The user firm should be aware that the piecemeal utilization of a provider's quality control materials may violate the integrity of the design of the materials..



**AICPA DIVISION FOR CPA FIRMS**  
**PRIVATE COMPANIES PRACTICE SECTION**

Instructions to Firms With No Accounting and Auditing  
Practice That Desire an Exemption From the  
Peer Review Requirement

The purpose of these instructions is to provide guidance to firms with no accounting and auditing practice (including compilation and review engagements) in obtaining an exemption from the membership requirement for a triennial peer review since the Standards for Performing and Reporting on Peer Reviews clearly indicate that such reviews relate solely to a firm's accounting and auditing practice.

Questions regarding this information should be directed to the AICPA Quality Review Division at (212)575-6650.

1. Six months before the end of the period for which a peer review would otherwise be required, submit to the AICPA a letter of representation that states:
  - a. The firm has no accounting and auditing practice, including no compilation and review engagements.
  - b. The firm will notify the section immediately if it engages in an accounting or auditing practice.\*
2. Along with the representation letter, submit the following evidential matter supporting the firm's compliance with the section's membership requirements:
  - a. Photocopies of all required records of continuing professional education for qualified professional staff.
  - b. A listing of the firm's proprietors, partners or shareholders and an indication of whether or not they are CPAs and members of the AICPA.
3. The Peer Review Committee has the option of reviewing any portion of the material required to be submitted in support of compliance with the membership requirements. (See item 2 above.)

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\*A peer review would be required within one year from the date of acceptance of an accounting or auditing client.

**AICPA DIVISION FOR CPA FIRMS  
PRIVATE COMPANIES PRACTICE SECTION**

Program for AICPA Staff to Ascertain that a Firm is  
Exempt from Peer Review and Has Met the Other  
Membership Requirements of the Section

Firm	Period		
<u>Procedures</u>	<u>Findings</u>		
<b>MATTERS RELATIVE TO FIRM'S PRACTICE:</b>	<u>YES</u>	<u>NO</u>	<u>COMMENTS</u>
1. Does the representation letter submitted by the firm state that:	_____	_____	
a. The firm has no accounting and auditing practice including no compilation and review engagements?	_____	_____	
b. The firm will notify the section immediately if it engages in an accounting or auditing practice?	_____	_____	
<b>DOCUMENTATION SUPPORTING MEMBERSHIP REQUIREMENTS:</b>			
1. Has the requirement as to hours of continuing professional education been met for all professional staff based upon copies of records submitted?	_____	_____	
2. Has the firm paid its dues to the section?	_____	_____	
3. Are a majority of the proprietors, partners, or shareholders of the firm CPAs?	_____	_____	
4. Are all of the proprietors, partners or shareholders that are eligible for AICPA membership members of the AICPA?	_____	_____	
5. Has the firm filed its annual report for the most recent year?	_____	_____	

Staff Letter to be Prepared  
for Firms with No Accounting  
and Auditing Practice

(AICPA Letterhead)

(Date)

To the Members of the  
PCPS Peer Review Committee

I have reviewed the representation letter of (John Smith, CPA) stating that the firm has no accounting and auditing practice and have reviewed the documentation supporting the firm's conformity with the membership requirements of the Private Companies Practice Section for the year ended December 31, 1985.

In my opinion, (John Smith, CPA) is exempt from the peer review requirement and is in conformity with other membership requirements of the Section in all material respects.

Technical Manager  
Quality Review





**AICPA DIVISION FOR CPA FIRMS**  
**PRIVATE COMPANIES PRACTICE SECTION**

**Suggestions for Writing Letters of Comments and**  
**Writing a Response to a Letter of Comments**

This section of the PCPS Peer Review Manual contains guidance to assist reviewers and firms in writing letters of comments and letters of response. The two documents are as follows:

**(A) Suggestions for Writing Letters of Comments**

This document provides reviewers with additional guidance when preparing a letter of comments.

**(B) Suggestions for Writing a Response to a Letter of Comments**

This document provides firms with additional assistance when writing a response to a letter of comments.

# **DIVISION FOR CPA FIRMS**

## **SUGGESTIONS FOR WRITING LETTERS OF COMMENTS**

\* \* \* \* \*

*These suggestions are not intended to, nor do they, establish quality control standards or standards for writing letters of comments.*

## PREFACE

The peer review committees recognize that one of the most difficult tasks a peer reviewer faces is the preparation of a letter of comments that communicates in a clear and concise manner the exact nature of the team's findings. In 1986, the peer review standards were revised to provide reviewers with better guidance on deciding whether a matter should be included in the letter of comments issued in connection with a peer review. To supplement that guidance, the accompanying suggestions for writing letters of comments have been developed.

The first chapter contains general suggestions for writing letters of comments, including matters that a reviewer should or should not include. Chapters 2 through 11 contain illustrative examples of items that might be included in a letter of comments. Since the quality control policies and procedures adopted by firms vary based on a number of factors (such as size, degree of operating autonomy allowed their people, nature of their practices, etc.) no set of examples can encompass the variety of situations that may be encountered. **Accordingly, these examples are intended to be illustrative only.**

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# **DIVISION FOR CPA FIRMS**

## **SUGGESTIONS FOR WRITING A RESPONSE TO A LETTER OF COMMENTS**

\* \* \* \* \*

*These suggestions are not intended to, nor do they, establish quality control standards or standards for writing letters of response.*

## **Suggestions for Writing a Response to a Letter of Comments**

### **Peer Review Standards**

Upon completion of the peer review, the review team will communicate its findings to your firm through one or more exit conferences. The review team captain will issue a written report and a letter of comments, if any, ordinarily within thirty days of the final firm-wide exit conference. Within thirty days of the issuance of these items, your firm is required to submit to the applicable section's peer review committee a copy of the report, the letter of comments, and a written response to the comments contained in that letter.

### **Contents of the Response**

The response should be addressed to the applicable section's peer review committee and should describe the actions taken or planned with respect to each matter in the letter. Depending on the circumstances, the firm might in responding:

- Agree entirely with a finding and the need to implement the recommended action.
- Agree entirely with a finding, but believe that an alternative action is more appropriate than the one recommended.
- Agree entirely with a finding, but disagree with the need to implement any corrective action.
- Disagree with a finding in some respect, and agree with the need to implement the recommended action.
- Disagree with a finding in some respect, but believe that an alternative action is more appropriate than the one recommended.
- Disagree entirely with a finding and the recommended action.

If the firm disagrees with either a finding or the recommended corrective action, its letter of response should describe the basis and rationale for the disagreement.

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**Note:** This document summarizes the descriptions pertaining to letters of response and the peer review committees' consideration of peer review reports contained on pages 2-31 through 2-35 of the SECPS Manual and the PCPS Peer Review Manual (1986 editions).

Exhibit A illustrates how a firm might respond to a letter of comments.

#### **Committee Consideration of Peer Review Documents**

A report on a peer review is sent to the section's peer review committee, together with the letter of comments, if any, and the reviewed firm's response to the letter. Upon acceptance by the committee, the firm will be notified in writing and the documents will be placed in the public files of the Division for CPA Firms.

Prior to acceptance, the staff of the AICPA Quality Review Division (the committee's staff) will review the aforementioned peer review documents and all or some of the review team's working papers. The staff will evaluate whether the findings appear to be properly reported upon and report its conclusions to the committee. The committee will also review the peer review documents and the comments of the staff and, if applicable, of the public oversight board or its staff. During its review, the committee will decide whether --

- The peer review has been performed and reported upon in accordance with the peer review standards.
- The reviewed firm or the committee need to take any additional actions.

Several factors influence the committee's decisions on the second item. The factors include the committee's judgment regarding--

- The nature and significance of the matters in the letter of comments.
- Whether the reviewed firm's response presents either a satisfactory course of action or convinces the committee that additional action is unnecessary.
- Whether the reviewed firm's response to a matter appears to be an arbitrary rejection of the comment or an inappropriate conclusion not to take suitable action.

The committee will then decide whether to accept a report, letter of comments, and letter of response. In some cases a review team captain may be asked to revise his report or letter of comments or a firm may be asked to revise its response in whole or in part or to agree to take certain additional actions. When additional actions are required, they may include:

- Obtaining documentary evidence that the matter has been treated appropriately by the reviewed firm
- Requesting the reviewed firm to submit a copy of its next inspection report
- Requesting a reviewer to revisit the firm, at the firm's expense, to evaluate whether appropriate action has been taken
- Requesting the reviewed firm to agree to accelerate the date of its next peer review
- Requesting the reviewed firm to hire a competent party from outside the firm to review reports, accompanying financial statements, and related working papers, and to perform such other functions as the committee or the firm deem appropriate
- Recommending to the executive committee that sanctions be imposed on the reviewed firm



**AICPA Division  
for CPA Firms**

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*Private Companies  
Practice Section*

**Guide for Performing  
Inspections**

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1211 Avenue of the Americas, New York, NY 10036-8775

## PREFACE

A system of quality control includes policies and procedures designed to provide a firm with reasonable assurance that its accounting and auditing engagements are performed in accordance with professional standards. Statement on Quality Control Standards No. 1 (SQCS 1) states that a quality control system should include inspection policies and procedures designed to provide the firm with reasonable assurance that the procedures relating to the other elements of quality control are being effectively applied.

The benefits to be derived from a properly designed and executed inspection program include:

- An evaluation of overall firm compliance with established policies and procedures.
- A basis for the evaluation of the effectiveness and applicability of established policies and procedures.
- An identification of system and reporting deficiencies as they relate to specific engagements.
- An opportunity to inaugurate and/or revise and implement, on a timely basis, new policies and procedures to replace those which are ineffective or obsolete and institute corrective actions as deemed appropriate based on inspection findings.

To assist firms in achieving the benefits to be derived from an inspection program, the peer review committees have developed the accompanying guide for performing inspections. The guide is intended to enhance understanding of the inspection process and make suggestions for developing an effective inspection program. Inspection guidance is discussed under three sections as follows:

- Section I - A general description of an inspection program, including such matters as the objectives, timing and scope of an inspection program.
- Section II - Questions and answers concerning the inspection program.
- Section III - Sample work programs, including an illustrative summary inspection report.

This guide is not intended to, nor does it, establish standards for the performance of an inspection. Inspection procedures should be based upon the quality control procedures established by the firm and the assignment of responsibilities within the firm.

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SECTION I  
GUIDE FOR PERFORMING INSPECTIONS

## SECTION I

### GUIDE FOR PERFORMING INSPECTIONS

#### OBJECTIVES OF AN INSPECTION

The objectives of an inspection are to determine if a firm is complying with its system of quality control and conforming with professional standards, and to identify areas where improvements may be necessary.

To accomplish these objectives a firm should evaluate on a timely basis whether its policies and procedures, assignment of responsibilities, and communication of policies and procedures continue to be appropriate.

An inspection should be a self-examination of a firm's compliance with its quality control policies and procedures and its conformity with professional standards. The inspection procedures performed should enable the inspectors to evaluate whether the firm's quality control system is being complied with. When performing its inspection, a firm may wish to expand its testing to accomplish additional objectives, such as evaluating engagement efficiency or the firm's compliance with the Section's membership requirements.

#### QUALIFICATIONS OF INSPECTORS

The assignment of individuals to perform an inspection should be made with the same due care that would be used in assigning personnel to an engagement. In making such assignments, the firm should emphasize the productive nature of the assignment rather than the common perception that something has to be done just to comply with the quality control standards. The importance placed on an inspection will determine how productive it is and the benefits the firm derives.

Depending on the size of a firm and the nature of its practice, an inspection may be performed by one individual or by a group of individuals (an inspection team). In either case, an inspection should be under the direction of a partner who should be assigned responsibility for the work performed and the findings (henceforth "the supervisory partner"). This partner may delegate part or all of the testing procedures to qualified assistants.

Assistants assigned to a task should possess the degree of technical training and proficiency required in the circumstances. In the review of certain elements of quality control, some of the tests can be performed by nonprofessional staff. However, only qualified professional personnel should be involved in evaluating the judgmental factors on engagements (see page 2-10 of the PCPS Peer Review Manual on qualifications for reviewers).

Individuals assigned to the inspection team should be objective when performing their tasks. Accordingly, although not a requirement, it is desirable, whenever possible, to assign individuals who were not otherwise involved in the performance of the engagements they are to inspect. In multi-office firms, consideration should be given to assigning personnel from other offices to perform the inspection procedures at a particular practice office.

A firm may choose to hire inspectors from outside the firm. In such cases, the firm should consider the criteria discussed previously when selecting the outside inspectors. It is important to remember that, even when using outside

inspectors, the work of the inspection team should be under the direction of a partner who should be assigned responsibility for the work performed and the findings.

### TIMING

To provide the firm with continuing assurance that it is operating in a truly professional manner, an inspection should be performed at least annually.<sup>1</sup> While a firm is not expected to adhere to a rigid timetable, inspections should ideally be performed within the same time frame each year. Also, a firm may decide to inspect its compliance with the policies and procedures relating to the various elements of quality control at different times of the year. In such cases, the firm should take any necessary corrective actions on a timely basis.

To facilitate the engagement review portion of an inspection, many firms find it helpful to select an inspection year. Engagements subject to selection for review would be those with years ending during the inspection year unless a more recent report has been issued. In selecting an inspection year, the firm should choose a current period so that the most recent work of the firm is reviewed. Firms that plan to have their peer review fulfill the firm's annual inspection requirement for the year covered by the peer review may find it helpful to use the same year-end for inspections as for their peer review.

An appropriately timed inspection may enable a peer review team to significantly reduce the procedures it performs when reliance can be placed on a reviewed firm's internal inspection procedures. Therefore, the inspection performed in the year of the peer review should ordinarily be completed sufficiently in advance of the peer review to allow the peer reviewers to review and test the inspection findings. In order to complete the inspection on a timely basis, a firm that plans to perform an inspection in the year of the peer review should consider covering an inspection year-end that is a few months prior to its peer review year-end. In large, multi-office firms, the reviewer may wish to observe the inspection process.

### SCOPE OF THE INSPECTION

Firms have generally perceived an adequate inspection as one which places heavy reliance on the review of working papers, reports and financial statements and minimizes the review of the firm's compliance with policies and procedures for the other elements of quality control. The scope of an inspection should, in fact, be similar to that of a peer review.<sup>2</sup> Sufficient testing should be performed to allow the inspection team to evaluate whether the firm is effectively applying its procedures as they relate to the other eight elements of quality control. Accordingly, an inspection should, at a minimum, consist of a review of:

- Selected administrative and personnel files.

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<sup>1</sup>Interpretation 2.03 of quality control standards on page A-10 of the PCPS Peer Review Manual states that an inspection should be performed at least annually.

<sup>2</sup>See page 2-12 and 2-13 in the PCPS Peer Review Manual.

- Selected engagement files, including working papers, reports and financial statements.

### Review of Compliance with Policies and Procedures Relating to the Elements of Quality Control

The inspection program should address each of the other eight elements of quality control. Some firms may find, however, that they may be unable to inspect compliance with procedures for certain elements since they may not have been applicable during the period inspected. For example, if no additional staff were hired during the period being inspected, the firm cannot (and need not) inspect compliance with policies and procedures relating to hiring.

Suggested review procedures relating to each element of quality control are included in the "Program for Inspection of Compliance with Policies and Procedures Relating to the Elements of Quality Control" contained in Section III of this guide. Policies and procedures relating to many of the elements, such as assignment of personnel, consultation, supervision and acceptance and continuance of clients, may also be inspected during the review of engagement files.

### Review of Engagements

As previously mentioned, firms ordinarily place greater emphasis during an inspection on the review of engagements. In selecting engagements for review, a firm may find it helpful to consider the guidelines contained in the standards for peer reviews.<sup>3</sup> These guidelines provide that the selection should include a reasonable cross section of the accounting and auditing practice being reviewed, including concentrations of engagements in specialized industries. Greater weight should be given to selecting engagements that are:

- Audits of publicly-held companies.
- Large, complex, or high-risk.
- The reviewed firm's initial audits of clients.
- Audits conducted subject to the Government Auditing Standards.

Engagements selected for review should normally, over a three-year period, include work performed by a majority of the accounting and auditing partners and other supervisory staff.

The objectives of the review of engagements are to evaluate whether the firm is complying with quality control policies and procedures and conforming with professional standards, including generally accepted accounting principles (GAAP), generally accepted auditing standards (GAAS) and the standards for accounting and review services (SSARS). To achieve these objectives, the review should include an examination of reports, financial statements, related working papers and correspondence and, where appropriate, discussions with professional staff. The review should be directed primarily to the key areas of an engagement.<sup>4</sup>

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<sup>3</sup>See page 2-19 in the PCPS Peer Review Manual.

<sup>4</sup>See pages 2-20 and 2-54 in the PCPS Peer Review Manual for further discussion of the "extent of engagement review."



Inspectors usually find it helpful to use engagement checklists, such as those included elsewhere in this loose-leaf peer review manual, as an aid in performing the review.

The findings on each engagement reviewed should be discussed with the engagement supervisory personnel. For each engagement reviewed, the inspection team should evaluate whether anything came to its attention that caused it to believe that (1) the financial statements were not presented in all material respects in accordance with generally accepted accounting principles and (2) the firm did not have a reasonable basis under the applicable standards (GAAS or SSARS) for the report issued. These conclusions should be documented. One way of documenting these conclusions is to utilize forms such as those included in Section III of this guide.

Should any of the inspection team members, during the conduct of the inspection, believe that the firm may have issued an inappropriate report on a client's financial statements or omitted a necessary audit procedure, the supervisory partner should be informed promptly. In such circumstances, the firm should investigate the matter questioned by the inspection team member and determine what action, if any, should be taken pursuant to AU sections 390 and 561 of the AICPA Professional Standards.

#### Review of Compliance with the Membership Requirements

While not required by the quality control standards, many firms test compliance with the membership requirements of the Section during an inspection. As a practical matter, those membership requirements that are covered by the firm's quality control policies and procedures may be covered during other phases of the inspection. For example, compliance with the Section's continuing professional education requirements may be tested when the firm's policies and procedures for professional development are inspected.

#### Reporting Inspection Findings

At the conclusion of the inspection, written inspection reports should be prepared covering the following matters:

- Scope of the review.
- Conclusions with respect to the conformity of individual engagements reviewed with professional standards.
- Recommendations that will result in substantial improvement in the firm's quality control policies and procedures, including a description of the findings that resulted in the recommendations.
- Noncompliance in more than infrequent situations with a significant quality control policy or procedure, or with professional standards or, if inspected, with a membership requirement.

In multi-office firms, a report should be prepared for each office inspected.

The inspection reports should be submitted to the appropriate level of management within the firm, one that has the authority to implement corrective actions.

## Documentation of Inspection Procedures

A firm should establish appropriate documentation to demonstrate compliance with its policies and procedures for inspection. To assist firms in this regard, the following materials have been developed and are included in Section III of this guide--

- Illustrative summary inspection report (see Exhibit A).
- Report of firm's corrective action taken or planned (see Exhibit B).
- Program for inspection of compliance with policies and procedures relating to the elements of quality control (see Exhibit C).
- Optional program for the review of compliance with the membership requirements (see Exhibit D).
- Sample conclusion pages for engagements reviewed (these pages need not be retained after inspection findings have been summarized) (see Exhibit E).

Firms may utilize these materials, or they may develop their own, for performing and documenting their inspections.

These materials are based on typical policies and procedures that may be established by a firm. Since a firm's policies and procedures will vary from those contained in these materials, the supervisory partner should tailor the materials as appropriate.

## Follow-up on Inspection Findings

The objectives of an inspection are to determine if a firm is complying with its system of quality control and conforming with professional standards, and to identify areas where improvements may be necessary. The inspection report issued should be responsive to these objectives. It is the responsibility of the firm's management to plan corrective actions based upon the findings and recommendations of the inspection team. Corrective actions can be in the form of changes in quality control policies or procedures, updates or additions to technical manuals and practice aids, additional staff training in specific areas, or more stringent enforcement of policies already in place. The corrective actions planned should be responsive to the underlying causes of the deficiencies found in the inspection and should be communicated to appropriate personnel (see Exhibit B).

In a multi-office firm, appropriate corrective actions should be implemented by each office inspected. Inspection findings, however, should also be evaluated for firm-wide implications. If the same problems were noted in several offices or if the inspectors recommended changes that would result in significant improvement in the firm's overall quality control system, action should be taken on a firm-wide basis.

Within a reasonable period of time after the firm has taken the planned corrective actions, firm management should take whatever steps are necessary to determine that the planned corrective actions have achieved their objectives.

SECTION II  
QUESTIONS AND ANSWERS



SECTION II  
QUESTIONS AND ANSWERS

OBJECTIVES

- Q. What is the relationship between inspection and monitoring?
- A. The objective of monitoring is to determine that the firm's quality control policies and procedures continue to be appropriate. Inspection procedures are performed to determine compliance with quality control policies and procedures in effect during a period of time. Inspection procedures may contribute to the monitoring function by providing information regarding policies and procedures that may require changing. Likewise, monitoring procedures may contribute to the inspection function by pointing out certain areas needing additional emphasis in a firm's inspection program. (See also Interpretations 1.01 and 1.02 of Quality Control Standards on page A-9 in the PCPS Peer Review Manual.)
- Q. Are there any circumstances where monitoring procedures may be incorporated into the annual inspection?
- A. Yes. A firm may choose to utilize on-going monitoring procedures as part of its inspection procedures. Such monitoring procedures may be in the form of a second review of personnel files or continuing professional education records when inspection is not the main purpose of the second review. For example, a managing partner may choose to examine the files of newly hired personnel to become familiar with their background and experience. The examination of these files may be utilized as an inspection procedure. In such cases, the managing partner, or individual examining the files, should initial the inspection program as having performed the procedures. Any deficiencies noted should be summarized (at least annually) and included in an inspection report.
- Q. Should inspection procedures test for compliance with the firm's quality control policies and procedures or for conformity with professional standards?
- A. An inspection should be designed to test for both compliance with the firm's policies and procedures and for conformity with professional standards. The procedures performed should enable the reviewers to evaluate whether the firm's quality control system is appropriately designed and whether it is being complied with.
- Q. What steps should be taken when an inspection uncovers deficiencies?
- A. Each deficiency should be evaluated as to its effect on the specific engagement or the area being reviewed. Each deficiency should also be evaluated in conjunction with the other findings regarding the implications to the firm's quality control system as a whole. For example, an inspector may find that a minor disclosure has been omitted. This may result in a memo being sent to the engagement team reminding them to make sure that the disclosure is made in next year's financial statements. If the deficiency is noted in numerous files, corrective action may also be needed on a firm-wide basis. Firm-wide corrective action may include revising a disclosure

checklist, participating in additional CPE, or circulating a memorandum to all professional staff.

- Q. If a peer review has similar objectives to an inspection, is it necessary to perform an inspection in the year of peer review?
- A. No. Interpretation 2.07 of Quality Control Standards<sup>1</sup> states that "a firm's inspection policies and procedures may provide that a peer review conducted under the AICPA Division for CPA Firms fulfills the firm's annual inspection requirements for the year covered by the peer review." However, if an inspection is performed and documented prior to the peer review, the peer reviewers may be able to rely upon the inspection procedures and reduce the scope and, therefore, the cost of the peer review.

## QUALIFICATIONS

- Q. What should the role of the supervisory partner be?
- A. The role of the supervisory partner in an inspection should be similar to the role of an audit engagement partner. Therefore, the supervisory partner's involvement will vary depending on the size and nature of a firm's practice and the qualifications of other individuals involved in the inspection. In some firms, the partner may be actively involved in performing review procedures, in evaluating and discussing findings, and in preparing the inspection report(s). In other firms, the partner's role may be limited to planning the inspection, approving the program, and reviewing the inspection working papers and report(s).
- Q. What tasks can be assigned to non-professional staff?
- A. Some inspection procedures, particularly those involving the review of compliance with policies and procedures relating to certain elements of quality control, consist of checking files for completed forms. For example, the examination of personnel files to verify that independence representations, required hiring forms, annual performance evaluations, and continuing professional education records are present and in order can often be performed by nonprofessional staff.
- Q. Can sole practitioners (with or without professional staff) and smaller firms inspect their own work?
- A. Yes. A sole practitioner may inspect his own work by utilizing checklists and programs similar to those provided in this guide and elsewhere in the peer review loose-leaf manuals. Some sole practitioners and smaller firms have found it desirable to arrange for reciprocal inspections, whereby two or more firms will inspect each other's practices. In addition, some firms have utilized the services of state society committees that will review and critique reports and financial statements submitted. It should be noted, however, that these services generally do not include a review of working papers. (See also Interpretations 2.09 through 2.13 of Quality Control Standards on page A-11 in the PCPS Peer Review Manual.)

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<sup>1</sup>See page A-10 in the PCPS Peer Review Manual.

- Q. When hiring outside inspectors, what qualifications should a firm consider?
- A. In evaluating the qualifications of individuals from outside the firm, a firm should consider many of the same criteria that would be considered in selecting a firm to perform its peer review. These include:
- Experience of the outside inspectors.
  - Areas of expertise.
  - Familiarity with quality control and professional standards.
- Q. Can individuals who are not currently active in public accounting (e.g., college professors or retired practitioners) be used to perform an inspection?
- A. Yes. It is not required that inspectors be currently active in the practice of public accounting or be from a firm that is a member of the AICPA Division for CPA Firms. However, the individuals should possess current knowledge of accounting and auditing matters. Use of individuals currently active in practice may provide more meaningful results and greater benefits to the firm.

#### TIMING

- Q. When should an inspection be scheduled?
- A. Many of the procedures followed in assigning personnel to client engagements are applicable when planning an inspection. Consequently, some firms find it helpful to identify the timing and staffing requirements for the inspection at the same time that client engagements with a similar year end are being scheduled. By following similar procedures, a firm can ensure that (1) an inspection is performed on a timely basis; (2) sufficient time is provided to conduct an adequate inspection; and (3) individuals possessing the appropriate technical training and proficiency are assigned to the inspection team.
- Q. What criteria should a firm use to determine if its inspection has been completed on a timely basis?
- A. An important aspect of an inspection is to take corrective actions on the findings and recommendations of the inspection team. Accordingly, an inspection should allow a firm sufficient time to make any necessary changes to its policies and procedures before the procedures are to be performed again. For example, a firm's inspection might disclose deficiencies in the firm's policies and procedures for annually evaluating the staff. The timing of the inspection should be such as to allow the firm sufficient time to implement new policies and procedures before employees are due to be evaluated again.
- Q. What should a firm do if it is unable to perform an inspection during the time frame normally set aside?
- A. If a firm is unable to perform an inspection during the period normally set aside, the firm should perform an inspection as soon as possible, keeping in

mind the need to have corrective action in place for the upcoming year. The inspection documentation should include a statement as to why the normal timing guidelines were not met. Failure to perform a timely inspection may result in a modified report on the firm's next peer review.

Q. Can the inspection of engagement files be performed on an on-going basis throughout the year?

A. Yes. The ongoing review should be equivalent to a review that would normally be performed during an inspection. The scope and findings of these reviews should be periodically, but at least annually, summarized and considered by appropriate management personnel. (See Interpretation 2.17 of Quality Control Standards on page A-12 of the PCPS Peer Review Manual.)

Q. If a firm performs its inspection procedures at various times during the year, when should the results be reported?

A. The inspection findings should be documented no less frequently than once a year; however, the findings should be communicated to management on a timely basis so that corrective actions can be implemented promptly.

### SCOPE OF INSPECTION

Q. When inspecting an office in a multi-office firm, should the inspection team review for compliance with policies and procedures relating to all the elements of quality control?

A. If an inspected office has responsibility for complying with certain aspects of a quality control element, compliance with those aspects should be inspected at that office.

Q. Must the inspection team review for compliance with the aspects of an element of quality control that are not controlled by the offices selected for review?

A. Yes. Inspection procedures should be performed for compliance with all aspects of an element of quality control even if an office with sole responsibility for an aspect of a quality control element has not otherwise been selected for review of compliance with all other aspects of quality control, in a particular year.

Q. How can inspection programs of small firms (or practice offices) achieve appropriate engagement coverage without spending excessive time?

A. By applying the "key audit area" concept carefully to all selected engagements, the inspection team should be able to keep the time spent within reasonable limits. In some cases, the inspectors may decide not to review all key areas. (See discussion on page 2-54 in the PCPS Peer Review Manual.)

Q. Should different criteria be used in selecting audit, review, and compilation engagements for inspection?

A. While the same selection criteria generally would apply to each type of engagement, the guidance provided in this guide suggests that greater weight



be given to complex engagements. This would naturally result in more weight being given to audit engagements. However, final selection should give consideration to the nature of the firm's practice; thus, review and compilation engagements should be reviewed during a firm's inspection when reviews and compilations represent a significant portion of the firm's accounting and auditing practice.

- Q. In a single office firm with only one large complex engagement, must that particular engagement be inspected each year?
- A. No. It is not normally desirable to select any one engagement each year, unless deficiencies continue to be noted on that engagement during each successive inspection. Depending on the size and nature of a firm's practice, a firm might use a three year approach in planning its inspection programs, thus, a single complex engagement should be covered no more frequently than once every three years. However, in a multi-office firm, when more than one office performs a significant portion of an engagement, a different office's portion may be selected for review each year.



### SECTION III

#### ILLUSTRATIVE MATERIALS FOR PERFORMING INSPECTIONS

- Exhibit A      Illustrative Summary Inspection Report
- Exhibit B      Corrective Actions Taken or Planned Report
- Exhibit C      Program for Inspection of Compliance with Policies and  
                         Procedures Relating to the Elements of Quality Control
- Exhibit D      Optional Program for the Review of Compliance With the  
                         Membership Requirements
- Exhibit E      Sample Conclusion Pages for Engagements Reviewed

EXHIBIT A

AICPA DIVISION FOR CPA FIRMS  
ILLUSTRATIVE SUMMARY INSPECTION REPORT\*

I. Planning the Inspection

A. Inspection period \_\_\_\_\_

B. Composition of Inspection Team:

1. Captain \_\_\_\_\_ Position \_\_\_\_\_

2. Team Member \_\_\_\_\_ Position \_\_\_\_\_

3. Team Member \_\_\_\_\_ Position \_\_\_\_\_

C. Indicate matters that may require additional emphasis in the inspection and explain why.

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D. Development of Inspection Program:

1. Describe programs used and indicate any deviations therefrom.

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2. Describe basis for selection of engagements:

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\*This report has been developed as a guide for CPA firms. A firm is not required to use this report to document its inspection program. This report may also be used for the review of a practice office of a multi-office firm.

E. Timing of Inspection:

Commencement \_\_\_\_\_

Completion of field work \_\_\_\_\_

Issuance of report \_\_\_\_\_

II. Scope of Work Performed

A. Indicate elements of quality control not addressed and give reasons.<sup>1</sup>

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

B. Engagements Reviewed:

	<u>Firm Totals</u>		<u>Engs. Reviewed</u>	
	<u>Hrs.</u>	<u>No. of Engs.</u>	<u>Hrs.</u>	<u>No. of Engs.</u>
Audits:				
SEC Clients				
Government <sup>2</sup>				
Other				
Reviews				
Compilations				
Other Accounting				
Services				
Percentage of				
A&A Practice Reviewed				

Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

<sup>1</sup> All elements of quality control should normally be covered during an inspection. See discussion on Review of Compliance with Policies and Procedures Relating to the Elements of Quality Control on page IG-11 of this guide.

<sup>2</sup> Includes only audits conducted pursuant to the Single Audit Act of 1984.

III. Engagement Conclusions:

A. Did the inspection disclose any situation that led the reviewers to conclude that the firm or office should consider:

1. Taking action to prevent future reliance on a previously issued report, pursuant to AU section 561 of AICPA Professional Standards?

Yes \_\_\_\_ No \_\_\_\_

2. Performing additional auditing procedures to provide a satisfactory basis for a previously expressed opinion, pursuant to AU section 390 of AICPA Professional Standards?

Yes \_\_\_\_ No \_\_\_\_

B. Did the inspection team conclude in any instances that the firm or office lacked a reasonable basis under the standards for accounting and review services for the report issued?

Yes \_\_\_\_ No \_\_\_\_

If any of the answers above are yes, attach a description of such situations, including actions the firm or office has taken or plans to take.

IV. Findings and Recommendations:

Attach a copy of any reports issued, including a summary of any inspection findings and recommendations for improvement or list such findings and recommendations below.

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Supervisory Partner \_\_\_\_\_

Date \_\_\_\_\_

EXHIBIT B

AICPA DIVISION FOR CPA FIRMS

FIRM'S CORRECTIVE ACTIONS TAKEN OR PLANNED  
REPORT\*

INSPECTION TEAM'S  
RECOMMENDATIONS

CORRECTIVE ACTION  
TAKEN OR PLANNED

\* Attach additional pages as necessary

Signature \_\_\_\_\_

Date \_\_\_\_\_

EXHIBIT C

AICPA DIVISION FOR CPA FIRMS

PROGRAM FOR INSPECTION OF COMPLIANCE WITH POLICIES  
AND PROCEDURES RELATING TO THE ELEMENTS OF QUALITY CONTROL\*

\_\_\_\_\_  
Period Covered

INDEPENDENCE

1. Have memorandums of inquiry, written representations, or other appropriate documentation been obtained, evidencing:
  - a) Communication of firm policies and procedures relating to independence?
  - b) Monitoring of compliance with those policies and procedures?
2. Have independence questions which have arisen been appropriately resolved and, where necessary, have appropriate authorities been consulted?

ASSIGNING PERSONNEL TO ENGAGEMENTS

1. Have the firm's policies and procedures been followed to provide reasonable assurance that personnel are assigned to engagements in a manner that attempts to achieve a balance between the complexity of the engagement, the qualifications of the staff and individual development?

CONSULTATION

1. Does the firm's reference library contain technical manuals and recent pronouncements, including those relating to particular industries and other specialties, that meet the needs of the practice?

<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Extent of Testing</u>

\*This program has been designed primarily for single office firms.



	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Extent of Testing</u>
2. On engagements reviewed, was consultation made and documented in accordance with firm policy?				
3. If sufficient testing of consultation policies and procedures was not performed in 2 above, were consultations that took place appropriately and correctly applied? (This may be accomplished through inquiry or review of subject files.)				
<u>SUPERVISION</u>				
1. On engagements reviewed, have the required technical materials, (audit manuals, standardized forms, checklists and questionnaires) been used?				
2. Based on the engagements reviewed:				
a) Are the technical materials sufficiently comprehensive and up-to-date?				
b) Are the firm's policies and procedures for the review of engagement working papers, reports and financial statements appropriate?				
c) Are the firm's procedures for resolving differences of opinion among members of the engagement team appropriate?				
<u>PROFESSIONAL DEVELOPMENT</u>				
1. Do the firm's professional development records meet the requirements of the firm and of the Section?				
2. Has the professional development program for the last year been reviewed to determine if it fulfills the firm's needs for personnel with expertise in specialized areas and industries?				
<u>HIRING</u>				
1. Has the firm planned for its personnel needs in accordance with its policies and procedures?				

2. Does the firm's hiring program satisfy its needs?
3. Do personnel files of recently hired employees contain appropriate evidence that the individuals meet the firm's personal, educational, and experience requirements?
4. Have new personnel been notified of the policies and procedures that apply to them?

#### ADVANCEMENT

1. Based on a review of personnel files, personnel evaluations, or other documentary evidence, have personnel been evaluated and promoted in accordance with the firm's policies and procedures?

#### ACCEPTANCE AND CONTINUANCE OF CLIENTS

1. Do new client files contain documentation of compliance with the firm's policies and procedures for acceptance of clients?
2. On engagements reviewed, was the firm's policy for continuance of clients, including required documentation, complied with?

#### INSPECTION

1. Were appropriate corrective actions taken, including effective follow-up, with respect to the prior period's inspection findings?

<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Extent of Testing</u>

\_\_\_\_\_  
Reviewer

\_\_\_\_\_  
Date

\_\_\_\_\_  
Supervisory Partner

\_\_\_\_\_  
Date

EXHIBIT D

AICPA DIVISION FOR CPA FIRMS

PRIVATE COMPANIES PRACTICE SECTION

OPTIONAL PROGRAM FOR THE REVIEW OF COMPLIANCE  
WITH THE MEMBERSHIP REQUIREMENTS

\_\_\_\_\_  
Period Covered

Suggested review steps

1. Is each proprietor, shareholder, or partner of the firm resident in the United States and eligible for AICPA membership a member of the AICPA?
2. Are a majority of the members of the firm CPAs (a separate determination may not be necessary, depending on the results of the previous step)?
3. Has the firm filed its most recent annual and annual education reports with the section?

<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Extent of Testing</u>

\_\_\_\_\_  
Reviewer

\_\_\_\_\_  
Date

\_\_\_\_\_  
Supervisory Partner

\_\_\_\_\_  
Date

EXHIBIT E-1

CONCLUSIONS - AUDIT ENGAGEMENTS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

1. The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202)? YES \_\_\_\_ NO \_\_\_\_
2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified (see AU 561 and ET 203)? YES \_\_\_\_ NO \_\_\_\_
3. The auditor's report was not appropriate in the circumstances? YES \_\_\_\_ NO \_\_\_\_
4. The documentation on this engagement does not support the firm's opinion on the financial statements? YES \_\_\_\_ NO \_\_\_\_
5. The firm did not comply with its policies and procedures on this engagement in all material respects? YES \_\_\_\_ NO \_\_\_\_

EXHIBIT E-2

CONCLUSIONS - REVIEW ENGAGEMENTS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

1. The firm did not perform the engagement in all material respects in accordance with standards for accounting and review services (ET 202)? YES \_\_\_\_ NO \_\_\_\_
2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the review report was not appropriately modified (AR 300.04 and ET 203)? YES \_\_\_\_ NO \_\_\_\_
3. The review report was not appropriate in the circumstances? YES \_\_\_\_ NO \_\_\_\_
4. The documentation on this engagement does not evidence compliance with professional standards? YES \_\_\_\_ NO \_\_\_\_
5. The firm did not comply with its policies and procedures on this engagement in all material respects? YES \_\_\_\_ NO \_\_\_\_

EXHIBIT E-3

CONCLUSIONS - COMPILATION ENGAGEMENTS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe:

1. The firm did not perform the engagement in all material respects in accordance with standards for accounting and review services (ET 202)? YES \_\_\_\_ NO \_\_\_\_
2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the compilation report was not appropriately modified (AR 300.04 and ET 203)? YES \_\_\_\_ NO \_\_\_\_
3. The compilation report was not appropriate in the circumstances? YES \_\_\_\_ NO \_\_\_\_
4. The documentation on this engagement does not evidence compliance with professional standards? YES \_\_\_\_ NO \_\_\_\_
5. The firm did not comply with its policies and procedures on this engagement in all material respects? YES \_\_\_\_ NO \_\_\_\_



**AICPA DIVISION FOR CPA FIRMS**  
**PRIVATE COMPANIES PRACTICE SECTION**

**Suggestions for Writing Letters of Comments and**  
**Writing a Response to a Letter of Comments**

This section of the PCPS Peer Review Manual contains guidance to assist reviewers and firms in writing letters of comments and letters of response. The two documents are as follows:

**(A) Suggestions for Writing Letters of Comments**

This document provides reviewers with additional guidance when preparing a letter of comments.

**(B) Suggestions for Writing a Response to a Letter of Comments**

This document provides firms with additional assistance when writing a response to a letter of comments.



# **DIVISION FOR CPA FIRMS**

## **SUGGESTIONS FOR WRITING LETTERS OF COMMENTS**

\* \* \* \* \*

*These suggestions are not intended to, nor do they, establish quality control standards or standards for writing letters of comments.*

## PREFACE

The peer review committees recognize that one of the most difficult tasks a peer reviewer faces is the preparation of a letter of comments that communicates in a clear and concise manner the exact nature of the team's findings. In 1986, the peer review standards were revised to provide reviewers with better guidance on deciding whether a matter should be included in the letter of comments issued in connection with a peer review. To supplement that guidance, the accompanying suggestions for writing letters of comments have been developed.

The first chapter contains general suggestions for writing letters of comments, including matters that a reviewer should or should not include. Chapters 2 through 11 contain illustrative examples of items that might be included in a letter of comments. Since the quality control policies and procedures adopted by firms vary based on a number of factors (such as size, degree of operating autonomy allowed their people, nature of their practices, etc.) no set of examples can encompass the variety of situations that may be encountered. **Accordingly, these examples are intended to be illustrative only.**

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## Chapter 1

### Contents of Letter of Comments<sup>1</sup>

#### Objectives of the Letter

While there will be instances in which a letter of comments is not necessary, the review team ordinarily will issue a letter of comments concurrently with its report.

The major objectives of the letter are to:

- Report matters (including the matters, if any, that resulted in a modified report) that the review team believes resulted in conditions being created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, and, if appropriate, to set forth recommendations regarding those matters.
- Provide information about the effectiveness of the firm's quality control system.
- Provide the peer review committee and public oversight board, if applicable, with some of the information necessary to carry out their responsibilities.

#### General Guidelines for the Letter

The letter should be addressed, dated, and signed in the same manner as the report. It should include --

- A reference to the report indicating if it was modified.
- A description of the purpose of the peer review.
- A statement that the review was performed in accordance with the standards promulgated by the section.
- A description of any limitations on the scope of the review.
- A description of the limitations of a system of quality control.

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<sup>1</sup> This chapter summarizes the standards for reporting on peer reviews contained in Section 2 of the PCPS Peer Review Manual and the SECPS Manual (1986 editions), pages 2-28 through 2-31. Reference should be made to those pages for a detailed discussion of the standards.

- The reviewer's findings and any recommendations.
- A statement that the matters discussed in the letter were considered in determining the opinion on the system of quality control.

If any of the matters to be included in the letter were included in the letter issued in connection with the firm's previous peer review, that fact ordinarily should be noted in the description of the matter.

#### **Matters to be Included in the Letter of Comments**

The letter of comments should include comments, as discussed below, regarding the design of the reviewed firm's system of quality control, or its compliance with that system or with the section's membership requirements. In addition, if a modified peer review report is issued, the letter must include a section on the matters that resulted in the modification. This section would ordinarily include an elaboration of the findings discussed in the modifying paragraph of the report.

In order to give appropriate consideration to the evidence obtained and to reach conclusions regarding the opinion to be rendered and the matters to be included in the letter of comments, the review team must understand the elements of quality control and exercise professional judgment. The exercise of professional judgment is essential because the significance of the evidence obtained cannot be evaluated primarily on a quantitative basis.

**Comments regarding the design of the firm's quality control system.** Deficiencies in the design of the reviewed firm's quality control system should be included in the letter of comments if the design of the system resulted in one or more quality control objectives not being accomplished, and as a result, a condition was created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, even though there was reasonable assurance of conforming with professional standards.

When engagement deficiencies, particularly instances of nonconformity with professional standards, were attributable to such design deficiencies, the presence of the engagement deficiencies ordinarily should be noted in the comment along with the description of the design deficiency.<sup>2</sup>

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<sup>2</sup> "Nonconformity with professional standards" refers to those situations where the review team concluded that the reviewed firm should consider taking action pursuant to the AICPA's Professional Standards, Vol. 1, AU section 390 or 561 or where the review team concluded that the firm lacked a reasonable basis under the standards for accounting and review services for the report issued.

**Noncompliance with the firm's quality control system.** Instances of noncompliance with significant firm policies or procedures should be included in the letter whenever the degree of such noncompliance created a condition in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, even though the degree of noncompliance was not such as to warrant a modified report.

In assessing whether the degree of noncompliance created such a condition, the review team should consider the nature, causes, pattern, and pervasiveness of the instances of noncompliance noted, as well as the implications for the firm's quality control system as a whole, not merely the importance in the specific circumstances in which the instances were observed. In order to do this, the review team should evaluate the instances of noncompliance, both individually and collectively, recognizing that adherence to certain policies or procedures is more critical to assuring conformity with professional standards than is adherence to others. Accordingly, a higher degree of compliance should be expected for the more critical policies and procedures. As an example, a higher degree of noncompliance with a hiring policy relative to the obtaining of background information might be tolerated than with a policy which requires an independent partner to review the report and accompanying financial statements prior to issuance of the report.

When engagement deficiencies--particularly instances of nonconformity with professional standards<sup>3</sup>--were attributable to instances of noncompliance with significant firm policies or procedures that are described in the letter, that information ordinarily should be included in the description of the finding.

When the nature and degree of noncompliance at one or more offices of a multi-office firm were of such significance that a condition was created in which there was more than a remote possibility that the office would not conform with professional standards on accounting and auditing engagements, the review team should consider whether the matter should be included in the letter of comments, even though the degree of compliance for the remainder of the firm did not create such a condition with respect to the firm as a whole.

**Noncompliance with membership requirements.** When the firm has not achieved a very high degree of compliance with a membership requirement of the section--especially those directly related to the quality of performance on accounting and auditing engagements--that fact ordinarily should be included in the letter.

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<sup>3</sup> See footnote 2.

## **Matters That Should Not be Included in a Letter**

In the course of its work, a review team may note matters that do not merit reporting in the letter of comments, because such matters do not create a condition in which there is more than a remote possibility that the firm will not conform with professional standards on accounting and auditing engagements. However, such matters might be communicated to the firm orally.<sup>4</sup> Examples of such matters are described in the following paragraphs.

**Apparent deficiencies in design or compliance wholly or partially offset by other compensating policies and procedures.** If a firm's quality control system does not include a procedure that the review team might, in the circumstances, consider to be significant, such as the use of a financial statement disclosure or report review checklist, but it does include other compensating procedures, such as a second management-level pre-issuance review, that the review team finds to be functioning effectively, the matter should not be included in the letter.

**Recommendations regarding the firm's quality control document.** Reviewers may notice that the firm's quality control document does not provide for all circumstances that may arise, such as a firm that has no SEC audit engagements may not include procedures in its document applicable to SEC audit engagements. Such matters may be discussed with the reviewed firm; however, they should not be included in the letter of comments.

Also, in some cases the reviewers may find that the firm does not comply with certain policies and procedures that are excessive or redundant and therefore not necessary to assure conformity with professional standards on accounting and auditing engagements. Such findings should be discussed with the firm, but should not be included in the letter of comments.

**Isolated occurrences.** Ordinarily, an isolated instance of noncompliance would not be included in the letter. The review team, however, should evaluate the nature, importance, and cause (if determinable) of the instance of noncompliance and its implications for the firm's quality control system as a whole, and consider the results of its evaluation in conjunction with its other findings to determine if the item does, in fact, repre-

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<sup>4</sup> For members of the PCPS only, such matters may also be communicated in a written letter of suggestions. This letter should not be prepared on AICPA letterhead or included in the review team's working papers since it is a private communication between the team captain and the reviewed firm only.

sent an isolated occurrence. For example, a single disclosure deficiency, an instance of noncompliance with a quality control procedure, and a single documentation deficiency may all appear to be isolated but, in fact, may have the same cause. Such a finding should be included in the letter of comments if it created a condition in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements.

**Administrative matters.** Matters relating to firm administration and engagement efficiency (such as having a standard index for working papers) ordinarily do not create a condition in which there is more than a remote possibility that the firm will not conform with professional standards on accounting and auditing engagements. Therefore, they should not be reported in a letter of comments.

### **Points to Remember When Writing a Letter**

The objectives of the letter of comments are more likely to be met when the letter is written in a clear, concise manner. Some points to keep in mind when writing a letter, some of which have been discussed previously in this chapter, include:

1. If a modified report is issued, the letter should be divided into two sections: (a) matters that resulted in a modified report and (b) matters that did not result in a modified report.
2. Use the format recommended in the manual of "findings" and "recommendations for improvement." Separate, clearly captioned paragraphs should be used to report the findings and related recommendations.
3. If any of the matters to be included in the letter of comments were included in the letter issued in connection with the firm's previous peer review, this fact ordinarily should be noted in describing the matter.
4. Group findings related to a common quality control deficiency into a single comment. If the review team notes various disclosure deficiencies, a single comment on the disclosure deficiencies is preferable to numerous comments on the individual items. The letter should not be a listing of each deficiency noted by the review team.
5. Identify the likely cause of engagement deficiencies (for example, working paper documentation deficiencies resulted from a failure to comply with the firm's policies regarding the use of standard programs for testing related party transactions and subsequent events).



6. The description of the findings should be complete.
7. Use general terms to indicate frequency. Terms such as "in some instances" or "frequently" are preferable to the specific number of instances.
8. Do not identify specific engagements, individuals, or offices.
9. Avoid excessive or unnecessary detail in the letter of comments.
10. Do not include personal preferences in the letter when they relate to procedures (such as engagement letters or time budgets) that are not required by the firm's quality control system and are not essential to the reviewed firm's conformity with professional standards on accounting and auditing engagements. Such matters may be communicated to the firm orally.<sup>5</sup>

#### **General Guidelines For Describing the Review Team's Findings**

In describing a deficiency in the design of the reviewed firm's system or instances of noncompliance, the findings ordinarily can be described in the following fashion --

**Design deficiency** -- (1) state what the system does or does not require; and (2) if appropriate, state whether engagement deficiencies--particularly those that caused the reviewers to conclude that the reviewed firm (a) should consider taking action pursuant to the AICPA's Professional Standards, Vol. 1, AU sections 390 and 561 or (b) lacked a reasonable basis under the standards for accounting and review services for the reports issued--were attributable to the design deficiency.

**Instances of noncompliance** -- (1) state what the system requires; (2) state the frequency of noncompliance in general terms; and (3) if appropriate, state whether engagement deficiencies--particularly those that caused the reviewers to conclude that the reviewed firm (a) should consider taking action pursuant to the AICPA's Professional Standards, Vol. 1, AU sections 390 and 561 or (b) lacked a reasonable basis under the standards for accounting and review services for the reports issued--were attributable to the instances of noncompliance.

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<sup>5</sup> See footnote 4.

## Illustrative Examples

The remaining chapters contain illustrative examples of items that might be included in a letter of comments. Chapters 2 through 10 contain examples pertaining to each of the nine elements of a system of quality control, while Chapter 11 contains examples pertaining to the sections' membership requirements. In addition, Chapters 2 through 10 begin with a restatement of the quality control objective applicable to the element covered in the particular chapter.<sup>6</sup>

A reviewer must evaluate whether the reviewed firm's system meets the objectives of the quality control standards applicable to its practice and whether the system was being complied with to provide the firm with reasonable assurance of conforming with professional standards. A reviewer will decide whether a peer review report should be modified or a matter should be included in a letter of comments, communicated orally, or not communicated at all based on: (1) The extent to which the designed system meets these objectives and (2) the instances of noncompliance with the policies and procedures established by the firm. As a result, some of the examples contained in the remaining chapters may warrant the issuance of a modified report in certain circumstances, while an unqualified report will be appropriate in other situations with the matter being included in the letter of comments or communicated orally.

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<sup>6</sup> As described in paragraph 7 of Statement on Quality Control Standards No. 1.

## Chapter 2

### Independence

#### Quality Control Objective

Statement on Quality Control Standards No. 1 states that --

Policies and procedures should be established to provide the firm with reasonable assurance that persons at all organizational levels maintain independence to the extent required by the rules of conduct of the AICPA. Rule 101 of the rules of conduct contains examples of instances wherein a firm's independence will be considered to be impaired.<sup>7</sup>

#### Illustrative Examples

**Finding** -- The firm's quality control policies and procedures require appropriate evaluation and resolution of all questions regarding independence. However, the firm does not require that such resolutions be documented. Furthermore, we noted that there was no documentation supporting such resolutions.

**Recommendation for Improvement** -- We recommend that the firm's quality control policies and procedures be revised to require documentation of the resolution of independence questions.

**Finding** -- The firm's quality control policies and procedures provide that the firm should obtain written independence confirmations from other auditors who participate in audit engagements where the firm is the principal auditor. We noted that the firm does not obtain written independence confirmations in all instances as required, even though it has obtained oral assurances in those instances. This area of noncompliance was also noted in connection with the firm's prior peer review.

**Recommendation for Improvement** -- To highlight the need to comply with the firm's policy, we suggest that an item pertaining to obtaining written independence confirmations, where necessary, be added to the firm's planning checklist.

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<sup>7</sup> Statement on Quality Control Standards No. 1, American Institute of Certified Public Accountants, New York, NY 1979, page 5.

## Chapter 3

### Assigning Personnel to Engagements

#### Quality Control Objective

Statement on Quality Control Standards No. 1 states that --

Policies and procedures for assigning personnel to engagements should be established to provide the firm with reasonable assurance that work will be performed by persons having the degree of technical training and proficiency required in the circumstances. In making assignments, the nature and extent of supervision to be provided should be taken into account. Generally, the more able and experienced the personnel assigned to a particular engagement, the less is the need for direct supervision.<sup>8</sup>

#### Illustrative Example

**Finding** -- The firm requires that the personnel assigned to an engagement have sufficient experience to perform the work assigned to them. On two engagements, the personnel below the partner did not appear to have adequate experience to handle the work, and, as a result, certain complex procedures were not performed properly.

**Recommendation for Improvement** -- The partner on each engagement should ascertain that the personnel assigned to the engagement have sufficient experience to perform the work assigned to them. When it is necessary to assign a person to a key role on an engagement who does not have sufficient experience to handle all the work assigned to him or her, the engagement partner should document how the engagement team will compensate for this deficiency.

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<sup>8</sup> Ibid., page 5.

## Chapter 4

### Consultation

#### Quality Control Objective

Statement on Quality Control Standards No. 1 states that --

Policies and procedures for consultation should be established to provide the firm with reasonable assurance that personnel will seek assistance to the extent required from persons having appropriate levels of knowledge, competence, judgment, and authority. The nature of the arrangements for consultation will depend on a number of factors, including the size of the firm and the levels of knowledge, competence, and judgment possessed by the persons performing the work.<sup>9</sup>

#### Illustrative Examples

**Finding** -- Our review disclosed that the firm's consultation policies and procedures do not identify the situations where, because of the nature or complexity of the subject matter, consultation is ordinarily needed. As a result, we noted a few instances where consultation was lacking when it would have been appropriate. These instances did not, however, result in the issuance of an inappropriate report.

**Recommendation for Improvement** -- The firm should revise its quality control policies and procedures to specify the situations where, because of their nature or complexity, consultation is required. Such situations might include the following: (1) the application of newly issued technical pronouncements, (2) the application of a regulatory agency's filing requirements, (3) industries with special accounting, auditing, or reporting considerations, (4) emerging practice problems, and (5) cases where there is a choice among alternative generally accepted accounting principles.

**Finding** -- Our review disclosed that the firm's consultation policies and procedures do not provide procedures for resolving differences of opinion among engagement personnel and specialists. We noted no instances in which differences of opinion on practice problems had not been resolved to the satisfaction of all the parties involved, even though the individuals indicated that they did not have a clear understanding of the steps to be followed in such circumstances.

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<sup>9</sup> Ibid., page 5.

Recommendation for Improvement -- We recommend that the firm revise its quality control policies and procedures to describe the procedures for resolving differences of opinion among engagement personnel and specialists. These procedures should then be communicated to all professional personnel.

Finding -- Our review disclosed that the firm's reference library contains outdated technical manuals and lacks industry audit and accounting guides in many of the industries in which the firm's clients operate. As a result, we noted a few instances where financial statement formats and disclosures deviated from these guides. None of these instances, however, caused the statements to be misleading.

Recommendations for Improvement -- One individual should be assigned the responsibility of ensuring that the library is comprehensive and up-to-date. The firm should also obtain industry audit and accounting guides for the industries in which its clients operate.

## Supervision

### Quality Control Objective

Statement on Quality Control Standards No. 1 states that --

Policies and procedures for the conduct and supervision of work at all organizational levels should be established to provide the firm with reasonable assurance that the work performed meets the firm's standards of quality. The extent of supervision and review appropriate in a given instance depends on many factors, including the complexity of the subject matter, the qualifications of the persons performing the work, and the extent of consultation available and used. The responsibility of a firm for establishing procedures for supervision is distinct from the responsibility of individuals to adequately plan and supervise the work on a particular engagement.<sup>10</sup>

### Illustrative Examples

**Finding** -- Although the engagement partner reviews the firm's reports and the accompanying financial statements before they are issued, the firm's quality control policies and procedures do not require the completion of a comprehensive reporting and disclosure checklist. On several engagements reviewed, the financial statements did not include all the disclosures required by generally accepted accounting principles, particularly in the areas of related party transactions and leases. None of the missing disclosures were of such significance to make the financial statements misleading.

**Recommendation for Improvement** -- The firm should improve its quality control policies and procedures for ensuring that clients' financial statements include all relevant disclosures, such as by obtaining or developing comprehensive reporting and disclosure checklists for use on all engagements meeting specified criteria. The firm could then amend its quality control policies and procedures to require that these checklists be completed by a member of the engagement team and reviewed by the engagement partner. The checklists could then be retained with the engagement working papers.

**Finding** -- The firm does not have work programs for use on review and compilation engagements. As a result, the firm's review and compilation working papers did not include documentation of all the work procedures required by firm policy or professional standards. However, we were able to satisfy ourselves that, in each case, sufficient procedures had been performed.

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<sup>10</sup> Ibid., page 5

**Recommendation for Improvement** -- The firm should obtain or develop work programs and standard working papers for use on review and compilation engagements. Staff members should be required to prepare an appropriate program on every engagement, and partners should monitor compliance with this new policy when reviewing engagement files.

**Finding** -- The firm's quality control policies and procedures do not specify the working papers to be reviewed by engagement partners or require any documentation of the partners' reviews. While reviewing engagements, we were unable to determine from the working papers the extent of the engagement partners' reviews.

**Recommendation for Improvement** -- The firm should revise its quality control document to require that engagement partners review at least the key working papers and document the extent of their reviews. Such documentation can be in the form of initialing the working papers, file covers, or a partner review checklist.

**Finding** -- We noted, in a few instances, that the communication of material weaknesses in internal accounting controls was not documented in the working papers, as required by firm policy. In these instances, the engagement partner represented that the material weaknesses had been communicated orally to the client as required by professional standards.

**Recommendation for Improvement** -- The firm should reemphasize its policy of documenting the communication of material weaknesses in internal control and should consider adopting a policy requiring that such matters be communicated in writing. The firm should also consider adding a step to the reviewer's checklist regarding the communication of material weaknesses.

**Finding** -- Our review disclosed that, on certain engagements, letters from attorneys disclosed potentially material litigation for which the follow-up or disposition was not documented. Based on our discussions with the engagement partners, it appears as though such matters were resolved satisfactorily.

**Recommendation for Improvement** -- We recommend that the firm require a second partner to review attorneys' letters and that it reemphasize to its professional personnel the importance of documenting the disposition of the matters raised in attorneys' letters.

**Finding** -- During our review we noted instances where compliance with the financial covenants in loan agreements had not been fully assessed. However, we satisfied ourselves that this did not cause the financial statements to be misleading.

**Recommendation for Improvement** -- We recommend that the firm's Accounting and Auditing Manual be revised to emphasize the importance of this matter and that the firm's audit checklist be revised to include a step for reviewing loan covenants.



## Chapter 6

### Hiring

#### Quality Control Objective

Statement on Quality Control Standards No. 1 states that --

Policies and procedures for hiring should be established to provide the firm with reasonable assurance that those employed possess the appropriate characteristics to enable them to perform competently. The quality of a firm's work ultimately depends on the integrity, competence, and motivation of personnel who perform and supervise the work. Thus, a firm's recruiting programs are factors in maintaining such quality.<sup>11</sup>

#### Illustrative Example

**Finding** -- The firm's policies require that certain background information be obtained regarding the qualifications of prospective employees (including resumes, applications, college transcripts, and references). During our review, we noted several instances in which the personnel files for professional staff hired other than through the firm's college recruiting program did not always contain evidence that the individual met the firm's stated qualifications.

**Recommendation for Improvement** -- References and academic and employment records are of great assistance in assuring that employees possess appropriate professional characteristics. We recommend that the firm's policies regarding background information be applied to all hirees. One way of doing this might be to standardize the information to be included in personnel files; for example, forms such as those set forth in sections 302, "Recruiting," and 303, "Selecting Professional Staff" in the Management of an Accounting Practice Handbook might be used and included in each hiree's personnel file.

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<sup>11</sup> Ibid., page 5.

## Chapter 7

### Professional Development

#### Quality Control Standards

Statement on Quality Control Standards No. 1 states that --

Policies and procedures for professional development should be established to provide the firm with reasonable assurance that personnel will have the knowledge required to enable them to fulfill responsibilities assigned. Continuing professional education and training activities enable a firm to provide personnel with the knowledge required to fulfill responsibilities assigned to them and to progress within the firm.<sup>12</sup>

#### Illustrative Example

**Finding** -- Although the firm's personnel were in substantial compliance with the section's continuing professional education requirement, an insignificant amount of the courses taken were in accounting and auditing. As a consequence, we encountered instances in which emerging issues and matters relating to recent professional pronouncements had not been considered on engagements. In one such instance, the financial statements had to be restated.

**Recommendation for Improvement** -- The firm's policies and procedures should be revised to include a requirement that personnel participate in an appropriate amount of continuing professional education in accounting and auditing areas.

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<sup>12</sup> Ibid., page 6.

## Chapter 8

### Advancement

#### Quality Control Objective

Statement on Quality Control Standards No. 1 states that --

Policies and procedures for advancing personnel should be established to provide the firm with reasonable assurance that those selected for advancement will have the qualifications necessary for fulfillment of the responsibilities they will be called on to assume. Practices in advancing personnel have important implications for the quality of a firm's work. Qualifications that personnel selected for advancement should possess include, but are not limited to, character, intelligence, judgment, and motivation.<sup>13</sup>

#### Illustrative Examples

**Finding** -- The firm has not established policies and procedures regarding the qualifications necessary for each level of responsibility and for the advancement of personnel. As a result, we encountered engagements where the management-level personnel were unable to discharge their review responsibilities.

**Recommendation for Improvement** -- We recommend that the firm establish and document the qualifications necessary for each level of responsibility and create a review structure to ascertain that personnel meet the firm's requirements before they are promoted.

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<sup>13</sup> Ibid., page 6.

## Chapter 9

### Acceptance and Continuance of Clients

#### Quality Control Objective

Statement on Quality Control Standards No. 1 states that --

Policies and procedures should be established for deciding whether to accept or continue a client in order to minimize the likelihood of association with a client whose management lacks integrity. Suggesting that there should be procedures for this purpose does not imply that a firm vouches for the integrity or reliability of a client, nor does it imply that a firm has a duty to anyone but itself with respect to the acceptance, rejection, or retention of clients. However, prudence suggests that a firm be selective in determining its professional relationships.<sup>14</sup>

#### Illustrative Examples

**Finding** -- We were informed that the firm's policies and procedures for obtaining and evaluating information about prospective clients apply to all prospects. However, during our review, we noted that the procedures were only being followed for prospective audit clients.

**Recommendation for Improvement** -- The firm should reemphasize that its policies and procedures for accepting clients apply to all prospective clients.

**Finding** -- The firm's quality control policies and procedures specify the criteria that should be considered when making client continuance decisions and require that such considerations and decisions be documented. During our review, we were unable to determine whether client continuance decisions had been made using the specified criteria.

**Recommendation for Improvement** -- The firm should comply with its policies and procedures by evaluating its clients in accordance with the criteria set forth in its quality control document. The firm should also document such evaluations and decisions as required by firm policy.

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<sup>14</sup> Ibid., page 6.

## Chapter 10

### Inspection

#### Quality Control Objective

Statement on Quality Control Standards No. 1 states that --

Policies and procedures for inspection should be established to provide the firm with reasonable assurance that the procedures relating to the other elements of quality control are being effectively applied. Procedures for inspection may be developed and performed by individuals acting on behalf of the firm's management. The type of inspection procedures used will depend on the controls established by the firm and the assignment of responsibilities within the firm to implement its quality control policies and procedures.<sup>15</sup>

#### Illustrative Examples

**Finding** -- The firm's quality control policies and procedures do not require a formal annual inspection program. The firm does require, however, pre-issuance reviews of each audit report, the accompanying financial statements, and the related working papers by both the engagement partner and a partner or manager who is not otherwise associated with the engagement and of each review and compilation report and the accompanying financial statements by the engagement partner.

**Recommendation for Improvement** -- The firm should revise its quality control document to require that a formal annual inspection be performed in accordance with the AICPA's "Guide for Performing Inspections." The firm's inspections should address each of the elements of quality control in addition to engagements. The quality control document should also require the preparation of written inspection reports that summarize the deficiencies identified and document the monitoring of corrective actions.

**Finding** -- The firm's quality control document requires that annual inspections be performed in accordance with the AICPA's "Guide for Performing Inspections." In the most recent inspection, however, the firm did not review certain elements of quality control.

**Recommendation for Improvement** -- The firm should comply with its quality control policies and procedures by using all of the recommended forms in the AICPA's "Guide for Performing

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<sup>15</sup> Ibid., page 6.

Inspections." The use of these forms would result in the performance of all the required inspection procedures, including the review of all of the functional areas of quality control.

**Finding** -- The firm's quality control policies and procedures require timely annual inspections. Our review revealed that the reports on the past two inspections were dated almost one year after the end of the year being inspected. As a result, the firm did not implement the recommended corrective actions prior to beginning the subsequent year's engagements.

**Recommendation for Improvement** -- To maximize the benefits that can be gained from an inspection program, the firm should perform its inspections in a timely manner so that corrective actions can be implemented before the subsequent year's engagements begin.

## Chapter 11

### Membership Requirements

#### Illustrative Examples of Noncompliance With Membership Requirements

**Finding** -- The firm's policies and procedures require that each professional in the firm participate in at least 120 hours of continuing professional education every three years, but not less than 20 hours every year. Our review disclosed that, for the period ended June 30, 19XX, certain of the firm's management personnel failed to comply with the three-year requirement.

**Recommendation for Improvement** -- The firm should establish procedures to monitor compliance, on a timely basis, with its continuing education requirements and to initiate corrective action when violations occur.

**Finding** -- The section's membership requirements [IV.3(n)] require that each member firm establish policies and procedures concerning the rendering of opinions on the application of generally accepted accounting principles (other than to an ongoing audit client). During our review, we noted that the firm had established such policies and procedures; however, they had not been communicated to professional personnel.

**Recommendation for Improvement** -- We recommend that the firm issue a memorandum to all professional personnel notifying them of the firm's new policies and procedures concerning the rendering of such opinions.

# **DIVISION FOR CPA FIRMS**

## **SUGGESTIONS FOR WRITING A RESPONSE TO A LETTER OF COMMENTS**

\* \* \* \* \*

*These suggestions are not intended to, nor do they, establish quality control standards or standards for writing letters of response.*



## **Suggestions for Writing a Response to a Letter of Comments**

### **Peer Review Standards**

Upon completion of the peer review, the review team will communicate its findings to your firm through one or more exit conferences. The review team captain will issue a written report and a letter of comments, if any, ordinarily within thirty days of the final firm-wide exit conference. Within thirty days of the issuance of these items, your firm is required to submit to the applicable section's peer review committee a copy of the report, the letter of comments, and a written response to the comments contained in that letter.

### **Contents of the Response**

The response should be addressed to the applicable section's peer review committee and should describe the actions taken or planned with respect to each matter in the letter. Depending on the circumstances, the firm might in responding:

- Agree entirely with a finding and the need to implement the recommended action.
- Agree entirely with a finding, but believe that an alternative action is more appropriate than the one recommended.
- Agree entirely with a finding, but disagree with the need to implement any corrective action.
- Disagree with a finding in some respect, and agree with the need to implement the recommended action.
- Disagree with a finding in some respect, but believe that an alternative action is more appropriate than the one recommended.
- Disagree entirely with a finding and the recommended action.

If the firm disagrees with either a finding or the recommended corrective action, its letter of response should describe the basis and rationale for the disagreement.

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**Note:** This document summarizes the descriptions pertaining to letters of response and the peer review committees' consideration of peer review reports contained on pages 2-31 through 2-35 of the SECPS Manual and the PCPS Peer Review Manual (1986 editions).

Exhibit A illustrates how a firm might respond to a letter of comments.

#### **Committee Consideration of Peer Review Documents**

A report on a peer review is sent to the section's peer review committee, together with the letter of comments, if any, and the reviewed firm's response to the letter. Upon acceptance by the committee, the firm will be notified in writing and the documents will be placed in the public files of the Division for CPA Firms.

Prior to acceptance, the staff of the AICPA Quality Review Division (the committee's staff) will review the aforementioned peer review documents and all or some of the review team's working papers. The staff will evaluate whether the findings appear to be properly reported upon and report its conclusions to the committee. The committee will also review the peer review documents and the comments of the staff and, if applicable, of the public oversight board or its staff. During its review, the committee will decide whether --

- The peer review has been performed and reported upon in accordance with the peer review standards.
- The reviewed firm or the committee need to take any additional actions.

Several factors influence the committee's decisions on the second item. The factors include the committee's judgment regarding--

- The nature and significance of the matters in the letter of comments.
- Whether the reviewed firm's response presents either a satisfactory course of action or convinces the committee that additional action is unnecessary.
- Whether the reviewed firm's response to a matter appears to be an arbitrary rejection of the comment or an inappropriate conclusion not to take suitable action.

The committee will then decide whether to accept a report, letter of comments, and letter of response. In some cases a review team captain may be asked to revise his report or letter of comments or a firm may be asked to revise its response in whole or in part or to agree to take certain additional actions. When additional actions are required, they may include:

- Obtaining documentary evidence that the matter has been treated appropriately by the reviewed firm
- Requesting the reviewed firm to submit a copy of its next inspection report
- Requesting a reviewer to revisit the firm, at the firm's expense, to evaluate whether appropriate action has been taken
- Requesting the reviewed firm to agree to accelerate the date of its next peer review
- Requesting the reviewed firm to hire a competent party from outside the firm to review reports, accompanying financial statements, and related working papers, and to perform such other functions as the committee or the firm deem appropriate
- Recommending to the executive committee that sanctions be imposed on the reviewed firm

**Exhibit A: Sample Letter of Response**

[Firm Letterhead]

October 15, 19\_\_

SECPS or PCPS Peer Review Committee  
c/o American Institute of Certified  
Public Accountants  
Quality Review Division  
1211 Avenue of the Americas  
New York, New York 10036

Ladies and Gentlemen:

This letter represents our response to the letter of comments issued in connection with our firm's peer review for the year ended June 30, 19\_\_. All of the necessary changes to our quality control policies and procedures will be closely monitored by our quality control and managing partners. In addition, the matters discussed in this letter will be given special emphasis in our next inspection program.

**Matters That Resulted in a Modified Report**

**Supervision**

The firm has recalled all copies of its report on the financial statements referred to in the letter of comments, and the client is in the process of preparing corrected financial statements. To prevent the recurrence of such situations, we have obtained copies of the AICPA's reporting and disclosure checklists. Our policies and procedures have been revised to require the in-charge accountant to complete the appropriate checklists and file them with the working papers. In addition, a step has been added to our engagement review checklist requiring the engagement partner to document his review of these checklists.

**Consultation**

All professional staff were reminded during a training session held October 10, 19\_\_ of the need to consult with the appropriate authorities when complex issues arise and of the procedures to follow in such circumstances. On all large or complex engagements, the firm's quality control partner will specifically inquire, before the report is issued, about compliance with our consultation policies. Furthermore, as noted in the first paragraph of this letter, compliance with the firm's consultation policies and procedures will be emphasized during our next inspection.

## **Matters That Did Not Result in a Modified Report**

(Note: This caption is to be used only if a modified report has been issued.)

### **Client Acceptance**

Our firm's new client information form has been revised to provide for the managing partner's signature. In addition, we have advised our staff that an account number may not be assigned to a new client until the managing partner has signed the form.

### **Independence**

Effective October 1, 19\_\_, the firm amended its quality control document to require documentation of the resolution of all independence questions. A form has been developed to assist in such documentation and incorporated in the quality control document. In addition, we have added a step to our engagement review checklist covering this matter.

### **Supervision**

At a training session held October 10, 19\_\_ all professional staff were reminded of the firm's policy regarding the use of the standard programs in our audit and accounting manual and of the importance of complying with this policy. In addition, we have added a step to our engagement review checklist covering the use of appropriate standard programs, forms, and checklists.

### **Supervision**

In January 19\_\_, the firm acquired the office referred to in the letter of comments. An audit partner from our main office has been assigned the responsibility for training personnel of the acquired office in the firm's quality control policies and procedures, including the use of the firm's standard audit and work programs. The first two training sessions were held on October 6 and 13, and additional sessions have been scheduled for the next six weeks. In addition, the partner will spend one day a week at the new office monitoring its compliance with the firm's quality control policies and procedures.

### **Continuing Professional Education**

The five professionals referred to in the letter of comments have all registered for a sufficient number of continuing professional education courses to meet the current annual and three-year requirements. In addition, an individual has been assigned the responsibility of maintaining continuing professional

education records for all professionals and preparing quarterly CPE reports for the quality control partner.

Sincerely,

Jones, Smith & Co.



**AICPA DIVISION FOR CPA FIRMS**  
**PRIVATE COMPANIES PRACTICE SECTION PEER REVIEW MANUAL**  
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**AICPA DIVISION FOR CPA FIRMS**  
**PRIVATE COMPANIES PRACTICE SECTION**  
**Peer Review Fees and Surcharge**

**COMMITTEE-APPOINTED REVIEW TEAMS**

**Basic Policy**

Pursuant to the Peer Review Committee's administrative procedures, the Committee establishes rates annually for committee-appointed review teams. Out-of-pocket expenses are billed at actual cost.

**Fees and Surcharge**

For reviews commencing on or after January 1, 1989, the Peer Review Committee has approved the following hourly rates to be paid to members of committee-appointed review teams. In addition, reviewed firms will be billed a 10 percent surcharge to cover the section's administrative costs in arranging for such teams.

	<u>Reviewed Firms with Less Than 20 Profes- sional Staff and No SEC Clients</u>	<u>Reviewed Firms with 20 or More Profes- sional Staff or with 1 or More SEC Clients</u>
Team captain	\$75	\$85
Team members who are partners	\$65	\$75
Team members who are not partners	\$55	\$65

The following rates are in effect for reviews expected to commence in calendar year 1988:

	<u>Reviewed Firms with Less Than 20 Profes- sional Staff and No SEC Clients</u>	<u>Reviewed firms with 20 or More Profes- sional Staff or with 1 or More SEC Clients</u>
Team captain	\$70	\$80
Team members who are partners	\$60	\$70
Team members who are not partners	\$50	\$60

#### **ALL OTHER REVIEWS**

For firm-on-firm reviews and reviews by teams assembled by authorized state societies or authorized associations of CPA firms, the respective reviewing entities will make their own fee and billing arrangements.

**AICPA DIVISION FOR CPA FIRMS**

**PRIVATE COMPANIES PRACTICE SECTION**

**Private Companies Practice Section Dues**

At its May 7, 1986 meeting, the Private Companies Practice Section Executive Committee established the following dues structure for the calendar year 1987:

1. Dues are \$25 for each CPA in the firm, with a minimum of \$25 and a maximum of \$500 per firm.
2. Dues will be billed annually as of January 1 and will be determined based on the number of CPAs in the member firm as shown on its most recent annual report. Dues will be prorated on a monthly basis for new members.

"Sample Form"

MATTER FOR FURTHER CONSIDERATION

CONTROL NO. 3

REVIEWER'S DESCRIPTION OF THE MATTER

Audit program does not include certain audit procedures specified in applicable AICPA Industry Accounting and Audit Guide. Firm does have a specialized program for the Industry, but it was not used.

REVIEWED FIRM AGREES WITH THE DESCRIPTION OF THE MATTER? YES X NO     

REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

Although the firm's specialized audit program was not used and the audit program did not include similar procedures, limited tests were made (see working paper 17-6).

REVIEWER'S ADDITIONAL COMMENTS	<u>Check One:</u> Design	<u>          </u>
	Performance	<u>          </u>
	Compliance-Membership	<u>          </u>
	Compliance-Other	<u>    X    </u>
	Documentation	<u>          </u>

I have read working paper 17-6. My review of the audit working papers indicated that the quality of the work performed was high and that this did not result in a substandard audit. It would have been preferable to use the specialized audit program.

TEAM CAPTAIN'S COMMENTS, IF ANY

I feel the firm should require the use of the specialized program in these circumstances. I concur with the high quality impression of audits on an overall basis.

-----  
FIRM Wilson, Flynn & Co.  
OFFICE CODE NO. C

CONTROL NO. 3

Signatures

Dates

Engagement Partner J.P. Wilson

4/12/85

Reviewer P. Belute

4/13/85

Team Captain A. Williams

4/13/85

Program Questionnaire

Engagement

Section -

No. 2686

Element -

Checklist Page AE-14

Program Step           

Program Step 6(a)

## INSTRUCTIONS FOR USE OF MFC FORMS

1. If an MFC was prepared during the course of the review and subsequent information indicates that the form should not have been prepared, it may be discarded. (For example, an MFC may be discarded if it stated that no letter was received from legal counsel, but an acceptable letter had been received and misfiled and was subsequently found. Similarly, an MFC may be discarded if it stated that documentation in a particular area was inadequate, but the reviewer reconsidered and decided that documentation was adequate.) On the other hand, if an MFC is prepared for a matter which is valid, the MFC should not be discarded even though it is subsequently decided that the matter need not be covered in the letter of comments.
2. Number MFCs consecutively (top and bottom) to establish correspondence between top and bottom stub.
3. MFCs relating to both functional and engagement review areas should be sorted by nature of comment.
4. Do not detach control stub until POB oversight is completed. (The stub should be detached only if the SEC accesses the working papers.)

AMENDED DEFINITION OF ACCOUNTING AND AUDITING PRACTICE

PLEASE MAKE REFERENCE TO THIS REVISED UPDATE  
1 NEXT TO FOOTNOTE 4 ON PAGE 2-6 OF THE  
PCPS PEER REVIEW MANUAL(1986 EDITION)

The footnote is amended to read as follows:

Accounting and auditing practice, as referred to in this document, is limited to all auditing, and all accounting, review and compilation services covered by generally accepted auditing standards, standards for accounting and review services, standards for accountants' services on prospective financial information, and Government Auditing Standards issued by the U.S. General Accounting Office (the "Yellow Book").

**REVISIONS TO ADMINISTRATIVE PROCEDURES CLARIFYING  
THE PCPS PEER REVIEW COMMITTEE'S AUTHORITY  
TO APPROVE THE SELECTION OF REVIEWERS**

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**PLEASE MAKE REFERENCE TO THIS UPDATE 2**

- NEXT TO THE LAST PARAGRAPH ON PAGE 5-3
  - AFTER THE SECOND FULL PARAGRAPH ON PAGE 5-4
  - NEXT TO THE FOURTH FULL PARAGRAPH ON PAGE 5-5
  - NEXT TO THE FIFTH FULL PARAGRAPH ON PAGE 5-5
- OF THE PCPS PEER REVIEW MANUAL (1986 EDITION)**

- (1) The last paragraph on page 5-3 should be deleted.
- (2) The following paragraph should be inserted after the second full paragraph on page 5-4 of the PCPS Peer Review Manual in the section entitled "Sources of Reviewers:"

**Evaluation of Reviewers**

All reviewed firms will be asked to evaluate the performance of the review team and the effectiveness of the peer review program. In addition, the performance of team captains will be subjected to an evaluation by the peer review committee. Any such evaluation will be communicated to the team captain.

At the conclusion of each review by a committee-appointed review team, the team captain will also evaluate the performance of each team member.

Based on these evaluations, the Committee may prohibit a reviewer from serving on future review teams. In such circumstances, the reviewer will be so notified.

- (3) The fourth full paragraph on page 5-5 should be revised to read as follows:

If a member firm elects to have a review conducted by another member firm, the reviewed firm must notify the staff prior to the commencement of the review and must submit certain relevant background information. The Committee reserves the right to approve the selection of the reviewing firm and the reviewers in



any firm-on-firm review, which must be conducted in accordance with section 2, "Standards for Performing and Reporting on Peer Reviews."

- (4) The following sentence should be added at the end of the fifth full paragraph on page 5-5:

The Committee reserves the right to approve the selection of reviewers on state society and association reviews.

**REVISION OF THE ANNUAL REPORTING REQUIREMENTS**

**PLEASE MAKE REFERENCE TO THIS UPDATE 3-A NEXT TO ITEM IV.3(g)(11) ON PAGE 1-8 OF THE PCPS PEER REVIEW MANUAL (1986 EDITION)**

Membership requirement IV.3(g)(11) is amended to read as follows:

Number of SEC clients for which the firm is principal auditor-of-record; for this purpose, series of unit investment trusts and series of limited partnerships sponsored by the same entity shall be treated as one SEC client.

(Approved by the executive committee March 20, 1987.)

**REVISION OF THE CPE REQUIREMENT REGARDING  
CREDIT GIVEN FOR INDIVIDUAL STUDY**

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**PLEASE MAKE REFERENCE TO THIS UPDATE 3-B**  
**● NEXT TO ITEM V.B ON PAGE 6-8**  
**● AT THE END OF PAGE 6-17**  
**OF THE PCPS PEER REVIEW MANUAL (1986 EDITION)**

- (1) Item V.B on page 6-8 in the section entitled "Measurement of Continuing Professional Education Hours" is amended to read as follows:

Except for technology-based, interactive CPE courses (see Appendix D), the credit hours for formal correspondence or other individual study programs recommended by the program sponsor will be granted provided the requirements in Section III.D are met and the sponsor has--

1. Pretested the program to determine average completion time.
2. Recommended the credit be equal to one-half the average completion time.

If the program sponsor has not done both 1 and 2, above, a participant may claim credit, in whole hours only, in an amount equal to one-half the time actually spent on the program. For example, a participant who takes six hundred minutes to complete such a formal correspondence or individual study program may claim six hours of continuing professional education credit.

The credit hours for technology-based, interactive CPE courses recommended by the program sponsor will be granted provided the requirements in Section III.D are met and sponsor has--

1. Pretested the program to determine average completion time.
2. Recommended the credit be equal to the average completion time.

If the program sponsor has not done both 1 and 2, above, a participant may claim credit, in whole hours only, in an amount equal to the time actually spent on the program.

- (2) The following appendix is inserted at the end of Section 8, "Continuing Professional Education Requirements," of the PCPS Peer Review Manual (1986 Edition):

**Appendix D**  
**Technology-Based, Interactive CPE Courses**

Technology-based, interactive CPE courses--i.e., those that simulate a classroom learning process--should receive full CPE credit. Interactive learning methodologies simulate a classroom learning process by employing software, other courseware, and administrative systems that provide significant ongoing interactive feedback to the learner regarding his or her learning progress. Evidence of satisfactory completion of each course segment by the learner is built into such courses.

Technology-based, interactive CPE course have these characteristics:

They clearly define lesson objectives and manage the student through the learning process by (1) requiring frequent student response to questions that test for understanding of the material presented, (2) providing evaluative feedback to incorrectly answered questions, and (3) providing reinforcement feedback to correctly answered questions. Therefore, capabilities are used that, based on student response, provide appropriate ongoing feedback to the student regarding his or her learning progress throughout the course.

For example, they may:

- Provide for appropriate summaries at the end of each module or section that further reinforce the student's learning.
- Provide the use of graphics, animation, agenda building, etc. to enhance, as appropriate, the student's learning progress.
- Measure the competency level obtained. If a competency standard is not achieved, the student is provided specific evaluative feedback identifying areas for remedial training.
- Track segment data (e.g., level of mastery, frequency of errors while learning) to document completion of course segments.

(Approved by the executive committee January 12, 1987.)

**REVISIONS TO THE PEER REVIEW STANDARDS  
REGARDING THE WORDING OF QUALIFIED REPORTS**

**PLEASE MAKE REFERENCE TO THIS UPDATE 4-A**

- NEXT TO THE LAST SENTENCE IN THE SECOND FULL PARAGRAPH ON PAGE 2-26
  - NEXT TO THE FIRST FULL PARAGRAPH ON PAGE 2-38
  - NEXT TO THE LAST PARAGRAPH ON PAGE 2-41 AND THE FIRST PARTIAL AND FULL PARAGRAPHS ON PAGE 2-42.
- OF THE PCPS PEER REVIEW MANUAL (1986 EDITION)**

- (1) The last sentence in the second full paragraph in the section entitled "Reporting on Peer Reviews" on page 2-26 of the PCPS Peer Review Manual is amended to read as follows:

For example, a failure to establish appropriate procedures for reviewing accountants' reports and accompanying financial statements may result in engagements that do not meet the requirements of professional standards.

- (2) The first full paragraph in the section entitled "Exhibit A-2: Qualified Report" on page 2-38 of the PCPS Peer Review Manual is amended to read as follows:

Our review disclosed that the firm's quality control policies and procedures for supervision were not appropriately designed because they do not include appropriate procedures for reviewing accountants' reports and accompanying financial statements in order to provide the firm with reasonable assurance of conforming with professional standards on accounting and auditing engagements.

- (3) The two paragraphs under the subsection entitled "Supervision" on pages 2-41 and 2-42 of the PCPS Peer Review Manual are amended to read as follows:

Finding - Our review disclosed that the firm's quality control policies and procedures do not provide a means of ensuring that financial statements reported on include all relevant disclosures. As a result, we noted financial statements that did not include all of the

disclosures required by generally accepted accounting principles, and in one instance, financial statements that were materially misstated. The report on the latter financial statements has been recalled, and the financial statements are being revised.

Recommendation For Improvement - The firm should adopt procedures to ensure that clients' financial statements include all relevant disclosures, such as by obtaining or developing comprehensive financial statement disclosure and reporting checklists. The firm could then amend its quality control policies and procedures to require that those checklists be completed for all accounting and auditing engagements.

(Approved by the peer review committee May 2, 1987.)

**REVISIONS TO THE PEER REVIEW  
STANDARDS REGARDING SCOPE EXPANSION**

**PLEASE MAKE REFERENCE TO THIS UPDATE 4-B AFTER THE FIRST FULL  
PARAGRAPH ON PAGE 2-22 OF THE PCPS PEER REVIEW MANUAL (1986  
EDITION)**

The following paragraph is inserted after the first full  
paragraph on page 2-22 of the PCPS Peer Review Manual:

**Expansion of Scope**

If, during the course of the peer review, the review team concludes that there was a significant failure by the reviewed firm to reach an appropriate conclusion on the application of professional standards on an engagement, the review team should consider whether the application of additional review procedures is necessary.<sup>1</sup> This consideration should be documented in the peer review working papers. The objective of the application of additional procedures would be to determine whether the significant failure is indicative of a pattern of such failures and/or of a significant weakness in the reviewed firm's system of quality control or in compliance with the system. Under some circumstances, the reviewer may conclude that, because of compensating controls, or for other reasons, further procedures are unnecessary. If, however, additional procedures are deemed necessary, they may include an expansion of scope to review all or relevant portions of one or more additional engagements. Such additional engagements may be in the same industry, or supervised by the same individual in the reviewed firm, or otherwise have characteristics associated with the failure to apply professional standards.

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<sup>1</sup> See pages 2-20 and 2-21 for action(s) required regarding the specific engagement involved.

(Approved by the peer review committee May 2, 1987.)

**AMENDMENT TO THE APPROVED  
COMPOSITION OF THE PEER REVIEW COMMITTEE**

**PLEASE MAKE REFERENCE TO THIS UPDATE 4-C NEXT TO SECTION VIII.2(a) ON PAGE 1-11 OF THE PCPS PEER REVIEW MANUAL (1986 EDITION)**

Item VIII.2(a) in the section entitled "Peer Reviews" on page 1-11 of the PCPS Peer Review Manual is amended to read as follows:

The peer review committee shall be a continuing committee appointed by the executive committee and shall consist of not less than fifteen individuals selected from member firms.

(Approved by AICPA Council May 1987.)



Update 5  
October 1987

**AMENDED LANGUAGE GOVERNING THE  
NOMINATIONS PROCESS TO THE PRIVATE COMPANIES  
PRACTICE SECTION EXECUTIVE COMMITTEE**

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**PLEASE MAKE REFERENCE TO THIS UPDATE 5 NEXT TO THE ITEM  
VI.2.C. ON PAGE 1-9 OF THE PCPS PEER REVIEW MANUAL (1986  
EDITION)**

Item VI.2.c. on page 1-9 in the section entitled "Organizational Structure and Functions of the Private Companies Practice Section of the AICPA Division for CPA Firms" is amended to read as follows:

Nominations for appointments of representatives of member firms to the executive committee shall be provided to the chairman of the AICPA by a nominating committee. The nominating committee shall be elected by the AICPA Council and shall consist of individuals drawn from seven of the member firms of the section. The nominations process shall give appropriate recognition to the focus of the section on services by CPA firms to private companies.

(Approved by Council of the AICPA September 18, 1987)

**REVISION TO THE ORGANIZATIONAL  
STRUCTURE AND FUNCTIONS OF THE PCPS  
REGARDING THE TIMING OF PEER REVIEWS**

**PLEASE MAKE REFERENCE TO THIS UPDATE 6-A  
NEXT TO THE LAST PARAGRAPH ON PAGE 1-19  
OF THE PCPS PEER REVIEW MANUAL (1986 EDITION)**

The last paragraph on page 1-19 of the PCPS Peer Review Manual in the section entitled "Appendix 5-Reinstatement of Members" is revised to read as follows:

If the firm has been a member of the section during the last four years, a condition of reacceptance will be that the peer review field work be scheduled to start within ninety days of the firm's reacceptance or by the date the original peer review was to commence, whichever is later.

(Approved by the executive committee June 25, 1982; subsequently amended January 14, 1986 and March 21, 1988.)

**CLARIFICATION OF MATTERS TO BE  
INCLUDED IN THE LETTER OF COMMENTS**

**PLEASE MAKE REFERENCE TO THIS UPDATE 6-B  
NEXT TO THE SECOND FULL PARAGRAPH ON PAGE 2-30  
OF THE PCPS PEER REVIEW MANUAL (1986 EDITION)**

The following sentence is to be added after the third sentence of the second full paragraph on page 2-30 of the PCPS Peer Review Manual in the subsection entitled "Matters to be included in the letter of comments":

However, noncompliance with quality control policies and procedures that are less critical to assuring conformity with professional standards may also be reportable in a letter of comments; for example, failures to comply with the firm's hiring or advancement policies could create a condition in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, either currently or in the future.

(Approved by the peer review committee April 23, 1988.)

**REVIEWS OF QUALITY CONTROL MATERIALS**

**PLEASE MAKE REFERENCE TO THIS UPDATE 6-C**

- **NEXT TO THE THIRD FULL PARAGRAPH ON PAGE 2-15**
  - **AFTER THE LAST FOOTNOTE ON PAGE 2-15**
- OF THE PCPS PEER REVIEW MANUAL (1986 EDITION)**

An asterisk is to be placed next to the second sentence of the first paragraph in the subsection entitled "Study and evaluation of the quality control system" on page 2-15 of the PCPS Peer Review Manual and the following footnote is to be added to that page:

See Appendix B in the section contained in the loose-leaf PCPS Peer Review Manual entitled "Standards for Performing and Reporting on Reviews of Quality Control Materials" if the reviewed firm used quality control materials acquired from another accounting firm or some other third party.

(Approved by the peer review committee April 23, 1988.)

**REVISIONS TO GUIDELINES FOR INVOLVEMENT  
BY ASSOCIATIONS OF CPA FIRMS REGARDING  
REVIEWS OF ASSOCIATION QUALITY CONTROL MATERIALS**

**PLEASE MAKE REFERENCE TO THIS UPDATE 6-D**

- **NEXT TO THE FIRST AND SECOND FULL PARAGRAPHS  
ON PAGE 3-6**
  - **NEXT TO FOOTNOTE NUMBER 3 ON PAGE 3-6**
  - **NEXT TO FOOTNOTE NUMBER 4 ON PAGE 3-6**
- OF THE PCPS PEER REVIEW MANUAL (1986 EDITION)**

- (1) The first and second full paragraphs on page 3-6 of the PCPS Peer Review Manual in the subsection entitled "Reviews of association quality control materials" are deleted.
- (2) Footnote number three on page 3-6 of the PCPS Peer Review Manual is revised to read as follows:

See Appendix B, "Review of Association Continuing Professional Education Programs" or, in the case of other types of materials, the section contained in the loose-leaf PCPS Peer Review Manual entitled "Standards for Performing and Reporting on Reviews of Quality Control Materials."

- (3) Footnote number four on page 3-6 of the PCPS Peer Review Manual is revised to read as follows:

The association should advise the reviewers of its member firms that they should consider both the report relating to the association quality control materials and whether the reviewed firm tailored the materials, to the extent appropriate, to its practice and properly integrated the materials into its practice. The report on the reviewed firm should not, however, make reference to the review of the materials.

(Approved by the peer review committee April 23, 1988.)

**REVISED APPENDIX B--GUIDELINES FOR  
REVIEW OF ASSOCIATION CONTINUING  
PROFESSIONAL EDUCATION PROGRAMS**

**PLEASE MAKE REFERENCE TO THIS UPDATE 6-E  
ON PAGES 3-8 THROUGH 3-10 OF THE PCPS  
PEER REVIEW MANUAL (1986 EDITION)**

Appendix B on pages 3-8 through 3-10 of the PCPS Peer Review Manual is revised as follows:

**APPENDIX B--Guidelines for Review of Association Continuing Professional Education Programs**

**Introduction**

Associations authorized to administer peer reviews are required to submit to an independent review of the materials that constitute association quality control materials and of the related system of quality control for the development and maintenance of the materials at least once every three years. In the event of substantial change in the system or in the resultant materials, the association should consult with the Private Companies Practice Section Peer Review Committee to determine whether an accelerated review is warranted.

The following discussion describes the guidelines that a review team should follow in reviewing continuing professional education programs (hereinafter referred to as "CPE programs") that constitute association quality control materials.\*

**Qualifications of Review Teams**

A review of association continuing professional education programs may be performed by a committee-appointed review team, by a firm that is a member of the section, or by an association or state society appointed review team. Reviews of association continuing professional education programs may not be performed by a member of the association. Furthermore, the Committee will not appoint to the review team a person with a firm that is a

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\* See the section contained in the loose-leaf PCPS Peer Review Manual entitled "Standards for Performing and Reporting on Reviews of Quality Control Materials" for information on reviews of quality control materials other than continuing professional education programs.

member of the association or a person or firm that may have a conflict of interest with respect to the review, such as someone who assisted in the development, review or presentation of the CPE programs or uses the programs as an integral part of his/her firm's quality control system.

### Review Procedures

The review should include a study and evaluation of the system of quality control for the development and maintenance of the association continuing professional education programs and a review of the CPE programs themselves. Such a study normally should include --

- Obtaining a description of the system of quality control for the development and maintenance of the CPE programs;
- Obtaining a description of the objectives of the CPE programs;
- Reviewing the qualifications (subject matter and instruction design) of the developer(s) and reviewer(s) of the CPE programs;
- Obtaining evidence that the CPE programs were reviewed by qualified person(s) other than the developer(s);
- Reviewing and evaluating the procedures established for updating the CPE programs to ensure that they remain current and relevant and for communicating any relevant changes in professional standards, to program participants should new professional standards be issued prior to updating the CPE programs;
- Reviewing the system developed for soliciting and evaluating feedback on the CPE programs;
- Testing documentation evidencing compliance with the system;
- Reviewing selected instructor and participant manuals and evaluating whether the materials appear to accomplish the program's objectives.
- Evaluating whether the applicable AICPA standards for CPE program development and presentation that are not covered by the provider's procedures are being achieved. (See the Statement on Standards for Formal Group and Formal Self-Study Programs issued by the AICPA Continuing Professional Education Division.)

### **Reporting on a Review**

For assistance in preparing the report and letter of comments, if any, on the review of the quality control system for the development and maintenance of CPE programs and of the CPE programs themselves, the reviewer should refer to the general guidelines set forth in the section entitled "Standards for Performing and Reporting on Reviews of Quality Control Materials" contained in the loose-leaf PCPS Peer Review Manual.

(Approved by the peer review committee April 23, 1988.)



**REVISION TO THE PROCEDURES REGARDING  
CONSULTATION WITH THE PEER REVIEW COMMITTEE**

**PLEASE MAKE REFERENCE TO THIS UPDATE 6-F**

- **NEXT TO THE THIRD FULL PARAGRAPH ON PAGE 2-19**
  - **AFTER THE LAST FOOTNOTE ON PAGE 2-19**
  - **AFTER THE LAST BULLET ON PAGE 5-6**
- OF THE PCPS PEER REVIEW MANUAL (1986 EDITION)**

- (1) An asterisk is to be placed after the first sentence of the third full paragraph in the subsection entitled "Selection of engagements" on page 2-19 of the PCPS Peer Review Manual.
- (2) The following footnote is to be added to page 2-19 of the PCPS Peer Review Manual:

If the review team believes that the engagements selected for review do not provide a reasonable cross section of the firm's accounting and auditing practice due to the specific engagement criteria set forth in this section, the review team should consider consulting with the committee.

- (3) The following bullet is added after the last bullet in the first paragraph on page 5-6 of the PCPS Peer Review Manual in the section entitled "Performing Reviews:"
  - The review team encounters difficulties in selecting a reasonable cross section of the firm's accounting and auditing practice based on the engagement selection criteria set forth in the peer review standards.

(Approved by the peer review committee April 23, 1988.)

**REVISED APPENDIX 3 - TIMING OF REVIEWS**

**PLEASE MAKE REFERENCE TO THIS REVISED UPDATE 7 ON PAGE 1-16 OF THE PCPS PEER REVIEW MANUAL (1986 EDITION)**

Appendix 3 on page 1-16 of the PCPS Peer Review Manual (1986 Edition) is revised as follows:

**Initial Peer Review**

**General rules:** Except as described in the following paragraphs, field work on the initial peer review of any firm joining the Section must begin within eighteen months from the date the firm is accepted as a PCPS member. 1/

If a firm has had a consulting review six months before or after joining the Section, or has had a quality review within twelve months of joining the Section and is not taking the special election described below, the field work on the firm's initial peer review must begin within twenty-four months from the date the firm is accepted as a PCPS member.

If the firm was enrolled in the AICPA Quality Review Program prior to joining the Section and did not have a review under that program, its initial PCPS peer review must begin by the date set under the quality review program or ninety days after joining PCPS, whichever comes later. However, if the quality review due date is beyond the firm's eighteenth month of membership in the PCPS, then the general rules as described in the first two paragraphs above would apply.

If the firm was a member of the SEC Practice Section prior to joining the Private Companies Practice Section, its initial PCPS peer review must begin by the date set under the SECPS program or ninety days after joining PCPS, whichever comes later.

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1/ Firms that joined the Section between January 1, 1988 and December 31, 1989, whose 18th month falls in December through April will not be required to have their initial review until the following May.

Special election - previous quality review: A firm that has had a quality review under the AICPA Quality Review Program may elect to have that review treated as the equivalent of a PCPS review for the purpose of determining the timing of the firm's initial peer review as a PCPS member under the guidelines for "Subsequent Peer Reviews," 2/ provided that with its membership application the firm submits to the Section for inclusion in its public files:

- The report, letter of comments, if any, the firm's response thereto, and the letter of acceptance issued by the entity administering the quality review (the AICPA or a participating state CPA society).
- Evidence of satisfactory completion of any action agreed to pursuant to the administering entity's consideration of the results of that quality review.

#### Previous PCPS members

If the firm has been a member of the Section during the four years preceding its reacceptance and has not had a quality review or SECPS peer review in the intervening period, a condition of reacceptance will be that the peer review field work be scheduled to start within ninety days of the firm's reacceptance, or by the date the original peer review was to commence, whichever is later. (See Appendix 5.)

#### Subsequent Peer Reviews

Field work on a member firm's subsequent peer review must begin within three years and six months after the end of the period covered by the previous peer review. Although it is expected that a firm ordinarily will not change its review year, a firm may do so without the peer review committee's prior approval,

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2/ Until such a firm has had a peer review that has been conducted under the peer review standards of the Private Companies or SEC Practice Sections of the AICPA Division for CPA Firms and that has been accepted by the cognizant peer review committee, the firm will not be eligible to perform PCPS peer reviews, nor will its personnel be eligible to serve as PCPS team captains.

provided that the new review year-end is not beyond three months of the previous review year-end and provided that the field work still begins in accordance with the requirement in the preceding sentence.<sup>3/</sup>

(Approved by the executive committee May 7, 1990.)

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- <sup>3/</sup> Guidance on selecting the review year is contained in Appendix B to Section 2, "Standards for Performing and Reporting on Peer Reviews." Applying that guidance, the typical local practitioner, in consultation with the peer reviewer, would select a peer review year that ends approximately three to four months before the date on which the peer reviewers begin their work. In the large majority of cases, the peer review will have been completed within six months of the date of the peer review year-end, and the report, letter of comments, if any, and the firm's response thereto will have been submitted to the Section for consideration by the peer review committee.

SUSPENSION OF THE MEMBERSHIP REQUIREMENT  
FOR LIABILITY INSURANCE COVERAGE

PLEASE MAKE REFERENCE TO THIS UPDATE 8-A

- NEXT TO MEMBERSHIP REQUIREMENT IV.3(e) ON PAGE 1-7
- NEXT TO THE SECTION ENTITLED "APPENDIX 1 -- MINIMUM LIABILITY INSURANCE REQUIREMENTS" ON PAGE 1-14 OF THE PCPS PEER REVIEW MANUAL (1986 EDITION).

Effective December 13, 1985, the executive committee suspended the section's membership requirement for liability insurance. It appears unlikely that this requirement will be reinstated.

REVISION TO THE QUALIFICATIONS  
FOR SERVICE AS A REVIEWER

PLEASE MAKE REFERENCE TO THIS UPDATE 8-B AFTER THE FIRST SENTENCE OF THE FIRST PARAGRAPH IN THE SECTION ENTITLED "QUALIFICATIONS FOR SERVICE AS A REVIEWER" THE PCPS PEER REVIEW MANUAL (1986 EDITION)

The second sentence of the first paragraph in the section entitled "Qualifications for Service as a Reviewer" on page 2-10 of the PCPS Peer Review Manual is deleted and replaced with the following:

Accordingly, individuals serving as reviewers must be members of the AICPA and licensed to practice as a CPA and must possess current knowledge of accounting and auditing matters. In addition, a reviewer must have at least five years of experience in the practice of public accounting in the accounting and auditing function.

(Approved by the peer review committee April 29, 1989.)

REVISION TO THE STANDARDS FOR PERFORMING  
AND REPORTING ON PEER REVIEWS REGARDING  
SELECTION OF ENGAGEMENTS

PLEASE MAKE REFERENCE TO THIS UPDATE 8-C NEXT TO THE THIRD  
PARAGRAPH ON PAGE 2-19 OF THE PCPS PEER REVIEW MANUAL  
(1986 EDITION).

The last sentence of the third paragraph on page 2-19 is replaced  
by the following sentence:

In addition, the sample of engagements selected for review  
should include one or more audits conducted pursuant to  
the Government Auditing Standards issued by the U.S.  
General Accounting Office (the "Yellow Book"). In making  
this selection, greater consideration should be given to  
selecting engagements subject to the Single Audit Act of  
1984, especially those involving major programs.

(Approved by the peer review committee April 29, 1989.)

AMENDMENT TO THE COMMITTEE'S ADMINISTRATIVE  
PROCEDURES REGARDING CONSIDERATION OF REPORTS

PLEASE MAKE REFERENCE TO THIS UPDATE 8-D  
● NEXT TO THE FIFTH BULLET ON PAGE 2-33  
● AT THE BOTTOM OF PAGE 2-33  
OF THE PCPS PEER REVIEW MANUAL (1986 EDITION)

An asterisk should be placed next to the fifth bullet in the section entitled "Committee Consideration of Reports on Peer Reviews" on page 2-33 of the PCPS Peer Review Manual and the following footnote should be added to that page:

The revised peer review documents must be received by the committee's staff within 60 calendar days after the committee meeting at which the review was accepted and the revisions were suggested. If not, the review will not be considered "accepted" and the results of the review will be reconsidered at the committee's next meeting.

(Approved by the peer review committee November 9, 1988.)



**REVISION TO A FOOTNOTE INCLUDED IN THE  
INTERPRETATIONS OF QUALITY CONTROL STANDARDS**

PLEASE MAKE REFERENCE TO THIS UPDATE 8-E AFTER THE FIRST SENTENCE OF THE FOOTNOTE AT THE BOTTOM OF PAGE A-11 OF THE PCPS PEER REVIEW MANUAL (1986 EDITION)

The second sentence of the footnote at the bottom of page A-11 is deleted and replaced with the following:

Although a firm's inspection policies and procedures may provide that the section's peer review will serve as its inspection program for the year covered by the review, the peer review committee has indicated that a modified report ordinarily should be issued in all but the firm's initial review if, for the year preceding the review year, no inspection procedures have been performed that can be reviewed for compliance by the review team. In a firm's initial peer review, the team captain would ordinarily note in the letter of comments the failure to perform an inspection if performing an inspection should have detected and corrected other deficiencies noted in the review.

(Approved by the peer review committee August 1, 1989.)

Suspension of the Membership Requirement to  
File the Annual Education Report with the  
Division for CPA Firms

**PLEASE MAKE REFERENCE TO THIS UPDATE 9**

- NEXT TO FOOTNOTE 3 ON PAGE 1-7
  - NEXT TO PARAGRAPH E ON PAGE 6-4
  - NEXT TO PARAGRAPH A ON PAGE 6-9
- OF THE PCPS PEER REVIEW MANUAL (1986 EDITION).**

- (1) Footnote number three on page 1-7 is revised to read as follows:

See section 6 of this manual for additional information about the continuing professional education requirement and the manner in which compliance is to be measured.

- (2) Paragraph E on page 6-4 is revised to read as follows:

Any professional who has not participated in the required number of continuing professional education hours during any education year shall have two months immediately following that period to make up the deficiency. Any continuing professional education hours claimed during the two-month period to make up a deficiency may not also be counted toward the twenty-hour requirement of the educational year in which they are taken. Further, any continuing professional education hours claimed during the two-month period to make up any deficiency for the preceding three educational years may not also be counted toward the one hundred twenty-hour requirement of any three year period that does not include at least one of the three-educational-year period for which the deficiency was made up.

- (3) Paragraph A, on page 6-9 is deleted by action of the Executive Committee.

**Automatic Suspension and Termination of Members  
That Fail to Meet Certain Membership Requirements**

**PLEASE MAKE REFERENCE TO THIS UPDATE 10 NEXT TO THE RESOLUTION PARAGRAPH OF APPENDIX 2 ON PAGE 1-15 OF THE PCPS PEER REVIEW MANUAL (1986 EDITION).**

The resolution paragraph of Appendix 2 is revised to read as follows:

**IT IS HEREBY RESOLVED THAT:**

Membership in the Private Companies Practice section shall be suspended thirty days after a firm has been notified by certified mail that it is in default of its obligation to:

- o File its annual report to the section;
- o Pay its dues;
- o File requested information with the peer review committee incident to arrangements for a required peer review;
- o Have a peer review by the date required; or
- o Pay in full the fees and expenses of the review team appointed by the peer review committee within 60 days of the date when the peer review was accepted by the peer review committee.

The firm's membership shall be automatically terminated ninety days after the date of suspension if the failure is not sooner corrected. This resolution shall be retroactively applied to firms in default of any of the aforementioned obligations on the date of the resolution's adoption by the executive committee.

(Approved by the executive committee May 7, 1990)



## Division for CPA Firms

American Institute of Certified Public Accountants

1211 Avenue of the Americas  
New York, N.Y. 10036-8775  
(212) 575-6200  
Facsimile: (212) 575-3846

June 1990

To the Managing Partners of Private Companies  
Practice Section Member Firms

### Update No. 10 to the PCPS Peer Review Manual

Enclosed are updates to the PCPS loose-leaf peer review manual. Separate filing instructions are attached.

The following is a description of the major changes reflected in these materials:

- The timing of a firm's initial peer review has been revised for firms joining the Section on or after July 1, 1990. Under the revised timing requirements, a new member firm will have eighteen months from the date the firm is accepted as a PCPS member. However, a new member that has a consulting review six months before or after joining the Section will have twenty-four months to complete its initial peer review (Revised Update 7).
- The PCPS Executive Committee has agreed to suspend automatically, and later terminate if necessary, the membership of firms that are in default of certain of their obligations as members of the Section (Update 10).
- The non-CART team captain's checklist has been revised to require the team captain to submit all matter for further consideration forms to the Quality Review Division along with the other materials that are required for technical review.

Please call or write if you have any questions about this update.

Sincerely,

John R. Mitchell, CPA  
Director  
Private Companies Practice Section

JRM/vaz

Enclosures

600283

**Instructions for Filing Update No. 10**  
**PCPS Peer Review Manual (1986 Edition)**

The following materials in the 1986 loose-leaf manual should be removed and replaced with the contents of this package, according to the following filing instructions:

**Title Page**

- Remove the title page and replace with the enclosed title page.

**Team Captain Checklists**

- Remove pages NR-7 and NR-8 and replace with the enclosed pages NR-7 and NR-8.
- Remove pages NR-27 and NR-28 and replace with the enclosed pages NR-27 and NR-28.

**Other Matters**

- Table of Contents: Remove pages OM-1 and OM-2 and replace with the enclosed pages OM-1 and OM-2.
- Revised Update 7: Remove Revised Update 7 dated September 1989 and replace with the enclosed Revised Update 7 dated May 1990.
- Update 10: This update should be filed immediately after Update 9. Reference to this update should be made in the 6" X 9" PCPS Peer Review Manual according to the instructions included with this update.



## Division for CPA Firms

American Institute of Certified Public Accountants

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April 1990

To the Managing Partners of Private Companies  
Practice Section Member Firms

### Update No. 9 to the PCPS Peer Review Manual

Enclosed are the updates to the PCPS loose-leaf peer review manual. Separate filing instructions are attached.

The following is a description of the major changes reflected in these materials:

- **Team Captain Checklists** - A change has been made to ease the requirement to consult with the Quality Review Division when the reviewed firm agrees with the team captain regarding the actions to be taken regarding a substandard engagement.
- **Summary Review Memorandum** - The SRM has been revised to request that the team captain report the number of hours that have been expended by all team members on a particular review.
- **Engagement Review Checklists and Summaries** - These checklists and summaries have been revised and updated for new pronouncements and should be used for peer reviews beginning on or after May 1, 1990.
- **Audit Engagement Supplements** - A supplement to the "Checklist for Review of Audit Engagements" has been developed for use on reviews of bank audit engagements. This supplement is included as an additional section in the manual.
- **Other Matters** - The Section's membership requirements were amended to delete the requirement that an education report be filed with the section within two months after the completion of each education year. (See Update 9)

Please call or write if you have and questions about Update 9.

Sincerely,

Dale E. Rafal, CPA  
Vice President  
Quality Review

DER/vaz

Enclosures

Instructions for filing Update No. 9 to  
PCPS Peer Review Manual (1986 Edition)

The following materials in the 1986 loose-leaf manual should be removed and replaced with the contents of this package, according to the following file instructions:

- |   |  |
|---|--|
| <b>Title Page</b>                         | <ul style="list-style-type: none"><li>● Remove the title page and replace with the enclosed title page.</li></ul>  |
| <b>Team Captain Checklists</b>            | <ul style="list-style-type: none"><li>● Remove pages RC-5 and RC-6 and replace with the enclosed pages RC-5 and RC-6.</li><li>● Remove pages RC-19 through RC-27 and replace with the enclosed pages RC-19 through RC-28.</li><li>● Remove pages NR-5 and NR-6 and replace with the enclosed pages NR-5 and NR-6.</li><li>● Remove pages NR-17 through NR-22 and replace with the enclosed pages NR-17 through NR-22.</li><li>● Remove page NR-27 and replace with the enclosed pages NR-27 and NR-28.</li></ul> |
| <b>Peer Review<br/>Program Guidelines</b> |  |
| <b>Section 1</b>                          | <ul style="list-style-type: none"><li>● Remove pages 1-9 and 1-10 and replace with the enclosed pages 1-9 and 1-10.</li></ul>  |
| <b>Exhibit B</b>                          | <ul style="list-style-type: none"><li>● Remove pages SAE-1 through SAE-66 and replace with the enclosed pages SAE-1 through SAE-79.</li></ul>  |
| <b>Exhibit C</b>                          | <ul style="list-style-type: none"><li>● Remove pages SRS-1 through SRS-21 and replace with the enclosed pages SRS-1 through SRS-21.</li></ul>  |
| <b>Exhibit D</b>                          | <ul style="list-style-type: none"><li>● Remove pages SCS-1 through SCS-19 and replace with the enclosed pages SCS-1 through SRS-19.</li></ul>  |

## **Engagement Review Checklists**

### **Audit Engagement Checklists**

- Remove pages AE-1 through AE-50 and replace with the enclosed pages AE-1 through AE-50.

### **Governmental Checklist**

- Remove pages GE-1 through GE-56 and replace with the enclosed pages GE-1 through GE-63.

### **Not-For-Profit Checklist**

- Remove pages NE-1 through NE-48 and replace with the enclosed pages NE-1 through NE-53.

### **Audit Engagement Supplements**

- Insert the enclosed "Audit Engagement Supplements" tabsheet and pages BE-1 through BE-11 immediately preceding the "Compilation Engagement Checklist" section of your manual.

### **Compilation Engagement Checklist**

- Remove pages CS-1 through CS-26 and replace with the enclosed pages CS-1 through CS-24.

### **Review Engagement Checklist**

- Remove pages RS-1 through RS-28 and replace with the enclosed pages RS-1 through RS-28.

### **Other Matters**

- Table of Contents: Remove pages OM-1 and OM-2 and replace with the enclosed pages OM-1 and OM-2.
- Update 9: This update should be filed immediately after update 8-E. Reference to this update should be made in the 6" X 9" PCPS Peer Review Manual according to the instructions included with the update.





## Division for CPA Firms

American Institute of Certified Public Accountants

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Facsimile: (212) 575-3846

October 1989

To the Managing Partners of Private Companies  
Practice Section Member Firms

### Update No. 8 to the PCPS Peer Review Manual

Enclosed are the updates to the PCPS loose-leaf peer review manual. Separate filing instructions are attached.

The following is a description of the major changes reflected in these materials:

- Guidance on the timing of reviews has been revised to allow firms that joined the Section after having a review under the Quality Review Program to have their initial PCPS peer review within three years of the prior quality review provided that the firm complies with certain conditions. (See Revised Update 7.)
- In 1985, the executive committee suspended, until further notice, the Section's requirement that member firms carry a specified minimum amount of liability insurance coverage. At this time, it appears unlikely that this requirement will be reinstated. (See Update 8-A.)
- The peer review standards were amended to require that reviewers be members of the AICPA, be licensed to practice as a CPA, possess current knowledge of accounting and auditing matters, and have at least five years experience in the practice of public accounting in the accounting and auditing function. (See Update 8-B.)
- The peer review standard requiring a reviewer to review an engagement subject to the Single Audit Act of 1984 has been replaced with a requirement that an engagement subject to Government Auditing Standards be selected for review. (See Update 8-C.)
- The peer review committee amended the administrative procedures to require that revised peer review documents be received by the Committee's staff within 60 days of their acceptance by the Committee, or else the documents will be deferred and considered at the Committee's next meeting. (See Update 8-D.)

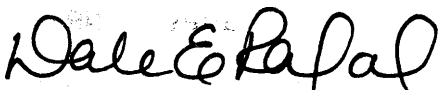
PCPS Member Firms

- The peer review committee clarified its position on the inspection element of quality control in the context of a firm's initial peer review. The peer review committee believes that, in its initial review, a firm would not necessarily get a modified report if it had not performed an inspection in its first year of membership, but the deficiency would ordinarily be noted in the letter of comments if that inspection would have detected and corrected other deficiencies noted in the peer review. (See Update 8-E.)

The enclosed materials have also been updated to incorporate new references to the Code of Professional Conduct issued in 1988 and other new pronouncements and the renaming of the AICPA Quality Control Review Division (now known as the Quality Review Division). These amendments and changes are described in updates to the PCPS Peer Review Manual which are already included in the "Other Matters" section of the manual.

Please call or write if you have any questions about Update 8.

Sincerely,



Dale E. Rafal, CPA  
Vice President  
Quality Review

DER/jfm

Enclosures

Certain materials in the 1986 loose-leaf manual should be removed and replaced with the contents of this package, according to the following filing instructions:

Title Page

- Remove the Title Page and replace with the enclosed Title Page.

Team Captain Checklists

- Remove the cover sheet entitled Review Team Captain Checklists and replace with the enclosed cover sheet entitled Review Team Captain Checklists.
- Remove pages RC-1 through RC-12 and replace with the enclosed pages RC-1 through RC-12.
- Remove page RC-27 and replace with the enclosed page RC-27.
- Remove pages NR-1 through NR-12 and replace with the enclosed pages NR-1 through NR-12.
- Remove page NR-27 and replace with the enclosed page NR-27.

Instructions to Reviewers

- Remove pages IR-5 through IR-10 and replace with the enclosed pages IR-5 through IR-10.
- Remove pages IR-15 and IR-16 and replace with the enclosed pages IR-15 and IR-16.

## Instructions to Firms

## Peer Review Program Guidelines

- Remove pages IF-1 through IF-6 and replace with the enclosed pages IF-1 through IF-6.

- Remove pages 1-5 and 1-6 and replace with the enclosed pages 1-5 and 1-6.

- Remove pages 1-13 and 1-14 and replace with the enclosed pages 1-13 through 1-15.

- Remove pages 2-7 and 2-8 and replace with the enclosed pages 2-7 and 2-8.

- Remove pages 2-19 through 2-25 and replace with the enclosed pages 2-19 through 2-26.

- Remove pages 4-13 and 4-14 and replace with the enclosed pages 4-13 and 4-14.

- Remove pages F-1 through F-10 and replace with the enclosed pages F-1 through F-12.

## Compiled Statement Checklist

- Remove page CS-23 and replace with the enclosed page CS-23.

## Reviewed Statement Checklist

- Remove page RS-25 and replace with the enclosed page RS-25.

## Reviews of Firms With No A&A Practice

- Remove pages NP-1 through NP-5 and replace with the enclosed pages NP-1 through NP-5.

## Report Review Program

## Guide for Performing an Inspection

## Writing Letters of Comments and Letters of Response

## Other Matters

- Remove pages RR-1 through RR-51 and replace with the enclosed pages RR-1 through RR-52.
- Remove pages IG-11 and IG-12 and replace with the enclosed pages IG-11 and IG-12.
- Remove pages IG-37 through IG-39 and replace with the enclosed pages IG-37 through IG-39.
- Remove pages LR-3 through LR-8 and replace with the enclosed pages LR-3 through LR-8.
- Table of Contents: Remove pages OM-1 and OM-2 and replace with the enclosed pages OM-1 and OM-2.
- Revised Update 1: Remove Update 1 dated May 1986 and replace with the enclosed Revised Update 1 dated September 1989.
- Revised Update 7: Remove Update 6-A dated May 1988 and Update 7 dated October 1988 and replace with the enclosed Revised Update 7 dated September 1989.
- Updates 8-A through 8-E: These updates should be filed immediately after Revised Update 7. Reference to these updates should be made in the 6" X 9" PCPS Peer Review Manual according to the instructions included with the updates.



## Division for CPA Firms

American Institute of Certified Public Accountants

1211 Avenue of the Americas  
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(212) 575-6200

October 1988

To the Managing Partners of Private  
Companies Practice Section Member Firms

### Update 7 to PCPS Peer Review Manual (1986 Edition)

Enclosed are updates to your PCPS loose-leaf peer review manual. Separate filing instructions are attached. The following is a description of the updates.

#### Peer Review Program Guidelines

The summary checklists have been expanded to include the additional questions asked on the revised engagement checklists. The checklists should be used for peer reviews beginning on or after October 31, 1988.

#### Engagement Checklists

The engagement checklists were revised to reflect new pronouncements. The checklists should be used for peer reviews beginning on or after October 31, 1988.

#### Writing Letters of Comments and Letters of Response

The first illustration of a comment relating to supervision in the Suggestions for Writing Letters of Comments has been revised to more clearly describe the implications of the finding for the firm's system.

#### Other Matters

#### Peer Review Fees

The PCPS Peer Review Committee has approved an increase in the rates to be paid to reviewers serving on committee-appointed review teams that begin field work on or after January 1, 1989.

#### Update 7

This update amends the timing of a firm's initial peer review to require any firm joining the Section to have its initial peer review completed within 18 months from the date the firm joins. However, no peer review will be required during December, January,

G00280

PCPS Member Firms  
October 1988  
Page 2

February, March or April. Initial reviews that would otherwise be required during these months must instead be completed by the end of the next May. This amendment was made retroactive to January 1, 1988.

Please call the Quality Review Division at 212/575-6650 or write if you have any questions about Update 7.

Sincerely,

A handwritten signature in cursive script that reads "Dale E. Rafal".

Dale E. Rafal, CPA  
Director  
Quality Review Division

Enclosures

**Instructions for Filing Update No. 7 to  
PCPS Peer Review Manual (1986 Edition)**

Certain materials in the 1986 loose-leaf manual should be removed and replaced with the contents of this package, according to the following filing instructions:

- |   |  |
|---|--|
| Title Page  | ● Remove the Title Page and replace with the enclosed Title Page.  |
| Team Captain Checklist                              | ● Remove pages NR-7 and NR-8 and replace with the enclosed pages NR-7 and NR-8.  |
| Peer Review Program Guidelines                      | <ul style="list-style-type: none"><li>● <b>Exhibit B</b> - Remove pages SAE-1 through SAE-71 and replace with the enclosed pages SAE-1 through SAE-66.</li><li>● <b>Exhibit C</b> - Remove pages SRS-1 through SRS-21 and replace with the enclosed pages SRS-1 through SRS-21.</li><li>● <b>Exhibit D</b> - Remove pages SCS-1 through SCS-19 and replace with the enclosed pages SCS-1 through SCS-19.</li></ul> |
| Audit Engagement Checklist                          | ● Remove pages AE-1 through AE-46 and replace with the enclosed pages AE-1 through AE-50.  |
| Governmental Checklist                              | ● Remove pages GE-1 through GE-60 and replace with the enclosed pages GE-1 through GE-56.  |
| Not-For-Profit Checklist                            | ● Remove pages NE-1 through NE-50 and replace with the enclosed pages NE-1 through NE-48.  |
| Compilation Engagement Checklist                    | ● Remove pages CS-1 through CS-26 and replace with the enclosed pages CS-1 through CS-26.  |
| Review Engagement Checklist                         | ● Remove pages RS-1 through RS-28 and replace with the enclosed pages RS-1 through RS-28.  |
| Writing Letters of Comments and Letters of Response | ● Remove pages LC-21 and LC-22 and replace with the enclosed pages LC-21 and LC-22.  |



Other Matters

- **Table of Contents** - Remove pages OM-1 and OM-2 and replace with the enclosed pages OM-1 and OM-2.
- **Peer Review Fees and Surcharge** - Remove page OM-3 replace with the enclosed pages OM-3 and OM-4.
- **Update 7** - This update should be filed immediately after Update 6-F. Reference to this update should be made in the 6" x 9" PCPS Peer Review Manual according to the instructions included with the update.



## Division for CPA Firms

American Institute of Certified Public Accountants

1211 Avenue of the Americas  
New York, N.Y. 10036-8775

May 1988

To the Managing Partners of Private  
Companies Practice Section Member Firms

### Update 6 to PCPS Peer Review Manual (1986 Edition)

Enclosed are updates to your PCPS loose-leaf peer review manual. Separate filing instructions are attached. The following is a description of the updates.

#### Team Captain Checklists

These checklists have been expanded to include additional guidance for performing peer reviews.

#### Reviews of Quality Control Materials

This document has been developed to provide additional guidance regarding reviews of quality control materials developed for sale or distribution to accounting firms. It also contains guidance to firms using these materials. [See Updates 6-C through 6-E.]

#### Other Matters

##### Update 6-A

This update revises the peer review timing guidelines to allow a firm that has not been a member during the last four years to have a full year from its admission to undergo its peer review.

##### Update 6-B

This update revises the peer review standards to state that noncompliance with quality control policies and procedures that are less critical to assuring conformity with professional standards (e.g., in the personnel areas) may also be reportable in a letter of comments.

##### Update 6-F

This update requires a review team to consult with the committee when it believes that the engagements selected for review do not provide a reasonable cross section of the firm's accounting and auditing practice due to the specific engagement criteria set forth in the Standards.

PCPS Member Firms

May 1988

Page 2

Please call the Quality Control Review Division at 212/575-6650  
or write if you have any questions about Update 6.

Sincerely,

A handwritten signature in cursive script, appearing to read "George R. Dick".

George R. Dick, CPA  
Vice President  
Review and Regulation

Encls.

**Instructions for Filing Update No. 6 to  
PCPS Peer Review Manual (1986 Edition)**

Certain materials in the 1986 loose-leaf manual should be removed and replaced with the contents of this package, according to the following filing instructions:

- |                                       |  |
|---------------------------------------|--|
| Title Page                            | ● Remove the Title Page and replace with the enclosed Title Page.  |
| Table of Contents                     | ● Remove the Table of Contents page and replace with the enclosed Table of Contents page.  |
| Team Captain Checklists               | ● Remove pages RC-1 through RC-25 and pages NR-1 through NR-21 and replace with the enclosed pages RC-1 through RC-27 and pages NR-1 through NR-27.  |
| Reviews of Quality Control Materials  | ● Insert the enclosed "Reviews of Quality Control Materials" tabsheet, the cover sheet and pages QCR-i through QCR-18 immediately preceding the "Reviews of Firms With No A & A Practice" section of your manual.  |
| Guidance for Performing an Inspection | ● Remove page IG-13 and replace with the enclosed page IG-13.  |
| Other Matters                         | <ul style="list-style-type: none"><li>● <b>Table of Contents</b> - Remove page OM-1 and replace with the enclosed pages OM-1 and OM-2.</li><li>● <b>Updates 6-A through 6-F</b> - These updates should be filed immediately after Update 5. Reference to these updates should be made in the 6" x 9" <u>PCPS Peer Review Manual</u> according to the instructions included with the updates.</li></ul> |

## Division for CPA Firms

**AICPA** American Institute of Certified Public Accountants

1211 Avenue of the Americas  
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(212) 575-6446

October 1987

To the Managing Partners of Private Companies  
Practice Section Member Firms

### Update 5 to the PCPS Peer Review Manual (1986 Edition)

Enclosed is an update to your PCPS loose-leaf peer review manual. Separate filing instructions are attached. The following is a description of the update.

#### Update 5

This update reflects an amendment to the language governing nominations to the PCPS executive committee.

At its Fall 1987 meeting, the AICPA Council approved a resolution, which had the support of the Institute's Board of Directors and the Private Companies Practice Section executive committee, changing the language governing nominations to the PCPS executive committee. Rather than prescribing that at least fourteen of the twenty-one firms on the committee will not have SEC clients, the amended language requires the nominations process to give appropriate recognition to the focus of the PCPS on services by CPA firms to private companies.

In addition, a revised Update 4-A is enclosed. The revision corrects an error in the references provided earlier.

Please call or write if you have any questions.

Sincerely,



John R. Mitchell, CPA  
Director  
Private Companies Practice Section

JRM:cw

Enclosure

**Instructions for Filing Update No. 5 to  
PCPS Peer Review Manual (1986 Edition)**

Certain materials in the 1986 loose-leaf manual should be removed and replaced with the contents of this package, according to the following filing instructions:

**Title Page**

- Remove the Title Page and replace it with the enclosed Title Page.

**Other Matters**

- **Table of Contents** - Remove page OM-1 and replace with the enclosed page OM-1.
- **Revised Update 4-A** - Remove Update 4-A dated August 1987 and replace it with the enclosed Revised Update 4-A dated October 1987.
- **Update 5** - This update should be filed immediately after Update 4-C. Reference to this update should be made in the 6" x 9" PCPS Peer Review Manual according to the instructions included with the update.

## **Division for CPA Firms**

**AICPA** American Institute of Certified Public Accountants

August 1987

1211 Avenue of the Americas  
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(212) 575-6446

To the Managing Partners of Private Companies  
Practice Section Member Firms

### **Update 4 to PCPS Peer Review Manual (1986 Edition)**

Enclosed are updates to your PCPS loose-leaf peer review manual. Separate filing instructions are attached. The following is a description of the updates.

#### **Instructions to Reviewers**

These instructions have been revised to direct reviewers to consider expanding the scope of a peer review if the review team concludes that there was a significant failure by the reviewed firm to reach an appropriate conclusion on the application of professional standards. (Update 4-B reflects a similar change to the peer review standards.)

#### **Peer Review Program Guidelines**

The Summary Checklist for Reviews of Audit Engagements has been expanded to include the questions asked on the governmental and not-for-profit checklists.

#### **Engagement Review Checklists**

The governmental audit engagement checklist has been revised to reflect new pronouncements. In addition, a new checklist has been developed for use in reviewing audits of not-for-profit organizations.

#### **Instructions to Firms With No A & A Practice**

The enclosed material reflects the decision of the PCPS Executive Committee to suspend, until further notice, the section's membership requirement for liability insurance. That decision became effective December 13, 1985.

#### **Writing Letters of Comments**

This program has been revised to reflect the changes made to a peer review report qualified for deficiencies in the design of a firm's system of quality control. (Update 4-A reflects a similar change to the peer review standards.)

**G00277**

Other Matters

Peer Review Fees and Surcharge

The PCPS Peer Review Committee has approved a modest increase in the rates to be paid to reviewers serving on committee-appointed review teams that begin field work on or after September 1, 1987.

Update 4-A

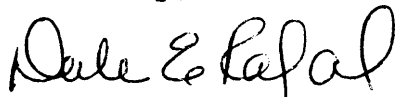
This update reflects a change in the language of the sample peer review report that is qualified for deficiencies in the design of a firm's quality control system.

Update 4-C

The section's organizational document has been revised to permit an increase in the number of individuals that may serve on the PCPS Peer Review Committee. This change was approved by the AICPA Council at its May 1987 meeting.

Please call or write if you have any questions about Update 4.

Sincerely,



Dale E. Rafal, CPA  
Director  
Quality Control Review

der/dmg

Enclosures



**Instructions for Filing Update No. 4 to  
PCPS Peer Review Manual (1986 Edition)**

Certain materials in the 1986 loose-leaf manual should be removed and replaced with the contents of this package, according to the following filing instructions:

- |   |   |
|---|---|
| Title Page  | ● Remove the Title Page and replace it with the enclosed Title Page.  |
| Instructions to Reviewers                           | ● Remove pages IR-13 through IR-16 and replace with the enclosed pages IR-13 through IR-16.   |
| Peer Review Program Guidelines                      | ● Remove pages SAE-1 through SAE-37 and replace with the enclosed pages SAE-1 through SAE-71.   |
| Governmental Checklist                              | ● Remove pages GE-1 through GE-46 and replace with the enclosed pages GE-1 through GE-60.   |
| Not-for-Profit Checklist                            | ● Insert the enclosed "Not-for-Profit Checklist" tabsheet and pages NE-1 through NE-50 immediately preceding the "Compiled Statement Checklist" section of your manual.   |
| Instructions to Firms With No A & A Practice        | ● Remove pages NP-1 through NP-5 and replace with the enclosed pages NP-1 through NP-5.   |
| Writing Letters of Comments and Letters of Response | ● Remove pages LC-21 and LC-22 and replace with the enclosed pages LC-21 and LC-22.   |
| Other Matters                                       | <ul style="list-style-type: none"><li>● <b>Table of Contents</b> - Remove page OM-1 and replace with the enclosed page OM-1.</li><li>● <b>Peer Review Fees and Surcharge</b> - Remove page OM-3 and replace with the enclosed page OM-3.</li><li>● <b>Updates 4-A through 4-C</b> - These updates should be filed immediately after Update 3-B. Reference to these updates should be made in the 6" x 9" <u>PCPS Peer Review Manual</u> according to the instructions included with the update.</li></ul> |

## Division for CPA Firms

**AICPA** American Institute of Certified Public Accountants

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(212) 575-6446

May 1987

To the Managing Partners of Private Companies  
Practice Section Member Firms

### Update 3 to PCPS Peer Review Manual (1986 Edition)

Enclosed are updates to your PCPS loose-leaf peer review manual. Separate filing instructions are attached. The following is a description of the updates.

### Team Captain Checklist and Peer Review Program Guidelines

The checklist and guidelines have been revised to reflect the review procedures that should be performed when a reviewed firm uses quality control materials purchased from a third party and to reflect certain other matters discussed later in this letter.

### Engagement Review Checklists

The checklists have been revised and updated for new pronouncements.

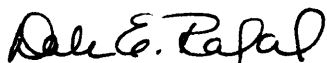
### Updates 3-A and 3-B

These updates include:

- A clarification in the annual reporting requirements concerning the manner in which a firm should calculate the number of SEC clients for which it is the principal auditor-of-record.
- A description of the nature and characteristics of technology-based, interactive continuing professional education and the manner in which credit should be computed for such courses.

Please call or write if you have any questions about Update 3.

Sincerely,



Dale E. Rafal, CPA  
Director  
Quality Control Review

der/

Enclosures

G00276

**INSTRUCTIONS FOR FILING UPDATE 3 TO THE  
PCPS PEER REVIEW MANUAL (1986 EDITION)**

**Team Captain Checklists**

Remove pages RC-1 through RC-23 and replace with the enclosed pages RC-1 through RC-25.

**Instructions to Reviewers**

Remove pages IR-1 through IR-16 and replace with the enclosed pages IR-1 through IR-16.

**Peer Review Program Guidelines**

- (i) **Cover Page**  
Remove cover page and replace with enclosed cover page.
- (ii) **Instructions for Use of Peer Review Program Guidelines**  
Remove pages i through v and replace with enclosed pages i through v.
- (iii) **Section 1**
  - Remove pages 1-5 through 1-8 and replace with the enclosed pages 1-5 through 1-8.
  - Remove pages 1-13 and 1-14 and replace with the enclosed pages 1-13 and 1-14.
- (iv) **Section 2**  
Remove pages 2-7 through 2-21 and replace with the enclosed pages 2-7 through 2-25.
- (v) **Exhibit B**  
Remove pages SAE-1 through SAE-32 and replace with the enclosed pages SAE-1 through SAE-37.
- (vi) **Exhibit C**  
Remove pages SRS-1 through SRS-15 and replace with the enclosed pages SRS-1 through SRS-21.
- (vii) **Exhibit D**  
Remove pages SCS-1 through SCS-12 and replace with the enclosed pages SCS-1 through SCS-19.
- (viii) **Exhibit E**  
Remove page SMFC-1 and replace with the enclosed page SMFC-1.
- (ix) **Exhibit F**
  - Remove pages F-3 and F-4 and replace with the enclosed pages F-3 and F-4.
  - Remove pages F-7 through F-10 and replace with the enclosed pages F-7 through F-10.

### **Engagement Review Checklists**

- (i) **Audit Engagement Checklist**  
Remove pages AE-1 through AE-38 and replace with the enclosed pages AE-1 through AE-46.
- (ii) **Compilation Engagement Checklist**  
Remove pages CS-1 through CS-22 and replace with the enclosed pages CS-1 through CS-26.
- (iii) **Review Engagement Checklist**  
Remove pages RS-1 through RS-24 and replace with the enclosed pages RS-1 through RS-28.

### **"Other Matters" Section of the Manual**

- (i) **Table of Contents**  
Remove page OM-1 (revised 10/86) and replace with the enclosed page OM-1.
- (ii) **Updates 3-A and 3-B**  
These updates should be filed immediately after Update 2. Reference to these updates should be made in the 6"x9" PCPS Peer Review Manual according to the instructions included with the update.

## Division for CPA Firms

**AICPA** American Institute of Certified Public Accountants

1211 Avenue of the Americas  
New York, NY 10036-8775  
(212) 575-6446

November 1986

To the Managing Partners of Private  
Companies Practice Section Member Firms

### Update 2 to PCPS Peer Review Manual (1986 Edition)

Enclosed are updates to your PCPS loose-leaf peer review manual. Separate filing instructions are attached. The following is a description of the updates.

#### Writing Letters of Comments and Letters of Response

In 1986, the peer review standards were revised to provide reviewers and reviewed firms with better guidance on deciding whether a matter should be included in the letter of comments issued in connection with a peer review and for responding to those letters. To supplement that guidance, the enclosed suggestions have been developed. Both documents include illustrative examples that should be helpful to reviewers and firms.

#### Other Matters - Update 2

This update reflects revisions to the administrative procedures regarding the PCPS Peer Review Committee's authority to approve the selection of reviewers. Peer review teams will now be evaluated by the reviewed firm and the performance of team captains will be subjected to an evaluation by the peer review committee. Based on these evaluations, the Committee may prohibit a reviewer from serving on future review teams.

Please call or write if you have any questions about Update 2.

Sincerely,

  
Dale E. Rafal, CPA

Director  
Quality Control Review

der/dmg

Enclosures

G00275

**Instructions For Filing Update No. 2 to  
PCPS Peer Review Manual (1986 Edition)**

The following materials in the 1986 loose-leaf manual should be removed and replaced with the contents of this package, according to the following filing instructions:

- |   |   |
|---|---|
| Instructions and Checklists                         | ● Remove the Instructions and Checklists page immediately preceding the Team Captain Checklist tab and replace it with the enclosed Instructions and Checklists page.   |
| Instructions to Reviewers                           | ● Remove Instructions to Reviewers cover sheet and pages IR-1 through IR-17 and replace with the enclosed pages IR-1 through IR-16.   |
| Governmental Checklist                              | ● Remove pages GE-5 and GE-6 and replace with the enclosed pages GE-5 and GE-6.   |
| Guidance for Performing an Inspection               | ● Remove pages IG-1 through IG-37 and replace with the enclosed pages IG-1 through IG-39.   |
| Writing Letters of Comments and Letters of Response | ● Insert the enclosed "Writing Letters of Comments and Letters of Response" tab-sheet, cover sheet and pages LC-1 through LC-33 and pages LR-1 through LR-9 immediately preceding the "Other Matters" section of your manual.   |
| Other Matters                                       | ● (i) <b>Table of Contents</b> - Remove page OM-1 and replace with the enclosed page OM-1.<br><br>(ii) <b>Update 2</b> - This update should be filed immediately after Update 1. Reference to this update should be made in the 6" x 9" PCPS Peer Review Manual according to the instructions included with the update. |

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May 1986

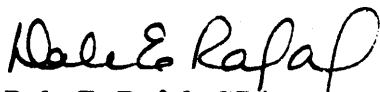
**UPDATE NO. 1 TO PCPS PEER REVIEW MANUAL (1986 EDITION)**

Enclosed is the 1986 edition of the PCPS loose-leaf peer review manual, including the 1986 revised edition of the 6"x9" PCPS Peer Review Manual booklet.

The manual also contains Update 1, an amended definition of accounting and auditing practice. It is important that reference be made to this update in the PCPS Peer Review Manual booklet. Instructions for doing so are included with the update, which has been filed immediately after page OM-8 in the "Other Matters" section of the loose-leaf manual.

Please call 212/575-6650 or write if you have any questions about this update.

Sincerely,



Dale E. Rafal, CPA  
Director  
Quality Control Review

DER/cpl  
Encls.

018095

**Instructions for Filing Material in Loose-leaf Binder**

**Loose-leaf Inserts**

Place outside cover and spine inserts into outside acetate pockets.

**6"x9" PCPS Peer Review Manual Booklet**

Place in inside front cover pocket.

**Inside Cover Page and Remaining Loose-leaf Material**

Insert three-hole punched cover page and place all tabsheets and remaining loose-leaf materials behind cover page.